

Company: G8 Education Limited
Title: Annual General Meeting
Date: 19 May 2021
Time: 11:00AM AEST

Start of Transcript

Mark Johnston: Good morning ladies and gentlemen. My name is Mark Johnston, and I am the Chair of G8 Education Limited. It's my pleasure to welcome you to G8 Education Limited's Annual General Meeting. I'm pleased to say a quorum is present and I declare the meeting open. On behalf of the Board, I would like to acknowledge the traditional owners of the land upon which we meet today, and pay my respects to their elders, past, present and emerging.

With the safety of our team and shareholders in mind during the uncertainties of the COVID-19 pandemic, the meeting today is being run as a fully virtual meeting. Last year we saw a marked increase in participation when we held our first virtual meeting, and we hope to see the same engagement and participation today. As we will discuss later on in the meeting when resolution 4 is considered, it is the Board's intention to run the Company's Annual General Meeting in future years as a hybrid meeting, which will allow our various stakeholders to participate either in person or virtually.

Gary Carroll, our Managing Director and Chief Executive Officer, Margaret Zabel, a Non-Executive Director and I are together here in Sydney. All other G8 Directors, being Julie Cogin, Susan Forrester, David Foster and Peter Trimble are joining us today via teleconference. Today I will be giving a brief Chairman's address followed by a presentation from Gary. I will then move on to the procedural matters of the meeting. I am now pleased to present my Chair's address.

So, fellow shareholders, I would like to formally welcome you to the 2021 Annual General Meeting for G8 Education Limited and thank you for attending. I take this opportunity to provide an overview of the Group's 2020 performance from both an operational and a strategic perspective. I will also provide an update on the Board. Gary will then provide an update on our trading performance for the year to date, as well as our progress in relation to execution of the Group's strategic focus area.

Following Gary's presentation, we will then move back to the formal items of business for this meeting. First to an overview of our 2020 performance. As you know the impact of COVID-19 on the sector was profound. In [May] 2020 attendances across the sector were approximately half the level of those experienced in prior years, placing the viability of the sector at risk. Recognising this risk, the Federal Government announced a series of sector-specific relief packages, commencing in early April 2020 and continuing through to January 2021.

These relief packages reinforced the essential role our sector plays in the economy, in addition to the important role we play in the cognitive, social and emotional development of Australian children. I would like to acknowledge the support provided by the government during the period, both in terms of financial support as well as day-to-day support and managing through various operational challenges posed by the pandemic.

It was also pleasing to see the government's commitment to the sector being reinforced by additional funding measures that were announced as part of last week's federal budget. Gary will provide more detail on the budget support measures in his update. As you know, following the announcement of the government's initial sector relief package last April, we raised \$301 million via underwritten institutional and retail entitlement offer. This capital raising provided the Group with the liquidity and financial flexibility to withstand a prolonged period of economic downturn, as well as allowing G8 to pursue any sensible opportunities that might emerge through the challenging period.

The Board also made the difficult but prudent decision to delay the payment of the Group's 2019 final dividend to October 2020. This measure, along with reducing Director's fees and salaries of the Executive Leadership Team by 20% for a six-month period, were part of a broader set of initiatives aimed at preserving cash and providing increased flexibility to deal with the unfolding pandemic.

We were pleased to see sector occupancy levels would cover a large portion of their shortfall in the second half of 2020, and the economy recovering from the lockdown measures that were undertaken earlier in the year. More importantly, the incidence of COVID infections was very low throughout our network, which is a testament for the skill, discipline and care of our team. On behalf of the Board I'd like to sincerely thank every team member of the G8 Education team for their tireless efforts in supporting our children, families and communities through this very difficult period.

The financial performance of the Group in 2020 was significantly impacted by COVID-19, with government relief subsidies providing an offset to the impacts of lockdown measures on occupancy. During the year, the Group reviewed its forecast cashflows to take account of the expected prolonged economic recovery from the pandemic. This review resulted in a non-cash impairment charge of \$237 million post tax being taken against a number of the Group's assets.

The impairment was non-cash in nature and had no impact on the Company's debt facilities or compliance with its banking covenants. It also provides the Group with more flexibility with respect to how we manage those underperforming assets, by limiting future profit impacts as we exit these assets. Our statutory loss after tax of \$187 million was impacted by the impairment charge of \$237 million. Excluding the non-operating items including this impairment charge, underlying net profit after tax was \$60 million, 11% lower than 2019.

Cashflow generation continued to be pleasingly strong, with \$189.6 million in operating cashflow generated in the calendar year. Further improvements to the Group's capital base were made during the year, and I'm pleased to say in February 2021 the expiry date of debt facilities was further extended to 2023 and beyond through a sustainability-linked loan that recognises the Group's performance in centre quality and team safety. This increased tenor, coupled with the proceeds of the capital raising ensures the Group have the capital that is required to deliver its current strategy.

Recently the Board has reviewed G8's dividend policy, which has been revised to adopt a payout ratio range of 50% to 70% of net profit after tax, providing an appropriate balance between the funding requirements of the business and the returns to shareholders. G8 will resume paying dividends for 2021. It is the Board's intention that a full year 2021 dividend will be paid in March 2022. There will be no interim dividend.

Disappointingly in late 2020 as part of the implementation of our new rostering platform, we identified that certain team members had been underpaid. We have apologised unreservedly to our team and are focused on ensuring that updated compliance systems and processes are implemented so that this does not occur again. We are well progressed on our remediation program, with payments to effected current team members, including interest and superannuation to be substantially completed by 31 July 2021.

The impact of the employee's underpayments has been fully provided in the Group's 2020 full year financial statements. I also want to note the shareholder class action that was filed against the Group last December. As with most other matters before the courts, there is not a lot that I can say publicly other than that we will be vigorously defending the matter.

Finally, I wanted to provide an update on G8's Board. Having been a Director of G8 for almost 10 years, Susan Forrester will be retiring from the Board at the conclusion of this AGM in accordance with G8's Board succession plan. On behalf of the Board I really want to thank Susan for her long-term valuable contributions during a period of significant transformation and wish her all the greatest success for the future. The Board will shortly commence a Non-Executive Director search to fill the vacancy.

In closing, I would like to thank all the G8 team members for their fantastic contributions throughout 2020 in what was an extremely challenging environment. Their passion, dedication and skill make us all very proud. I would also like to thank you, our shareholders, for your continued commitment and support.

I'll now hand over to Gary, who will provide an update of our trading performance for the year to date, as well as an update on the progress of our Group strategy so far in 2021. Many thanks, over to you Gary.

Gary Carroll: Thanks, Mark and welcome everyone. As Mark outlined, I'll spend the next few minutes providing you with updating three areas, firstly current trading performance, secondly progress regarding in the implementation of the Group's key strategic initiatives, and lastly an update on the market operating environment. Starting with current trading performance, as at 14 May, the Group's booked like-for-like occupancy is currently circa 70.8%. This is 3.3 percentage points below 2019 or pre-COVID levels, meaning the Group has closed the gap to 2019 by 0.7 percentage points since February.

Now the two standouts in this improved result are firstly the Group's 191 regional centres, including 40 improvement program centres which are tracking 1.9 percentage points about 2019 levels. Secondly, the 2020 improvement program cohorts in New South Wales and Victorian metro locations where we've got 55 centres in total, with growth in this cohort being circa 6 percentage points above the balance of the network in these regions, and that's in line with our expectations.

Our 255 metro centres throughout the Group are broadly 7 percentage points below 2019 levels, driven by recovery from prolonged lockdown activity in Victoria and increased supply in WA. These centres will be the focus of our 2021 and 2022 improvement program. The Group has limited exposure to CBD locations with eight centres. These have been materially impacted by COVID-19 movement restrictions and working from home arrangements, with occupancy circa 39% lower than 2019.

Wages are currently performing in line with expectations, with wage hours per bookings initially impacted by the implementation of remediation and strengthened compliance measures. However, these activities have now been absorbed into rosters and wage hours per booking levels are currently tracking in line with 2019, despite the lower occupancy levels. This increased efficiency is a direct result of the implementation of the Group's enhanced wage management processes and the savings achieved are in line with the Group's targets.

The Group's employee payment remediation program announced in December 2020 is on track, with payments to current team members to be substantially completed by the end of July and the communication and registration process for former employees to commence within that same period. Remediation program costs remain within the previously estimated range of \$50 million to \$80 million, with those costs fully provided for in calendar year 2020.

A number of activities have been undertaken in the program, including initial training, system enhancements to automate compliance adherence. The roll out of the Group's new HR and roster platform has been adjusted to ensure all required compliance actions are built into the system configuration and process, with rollout expected to commence in quarter three.

As we execute on our strategy, centre quality continues to improve, with 85% of our centres meeting or exceeding national quality standards at the end of 2020, above our target and ahead of national averages. Our commitment to invest in increased support to build on this momentum in 2021 has already resulted in benefits in the assessment and rating results in the year to date. Of the 32 centres assessed for the year to date, 31 have met or exceeded national quality standards.

Our further key focus in the Group strategy is centre manager retention. Despite very encouraging trends throughout the year, voluntary turnover was 19% at December 2020, following higher than average centre manager movements in quarter four. These movements have settled in 2021, bringing the current centre manager turnover to circa 17%.

From a strategic perspective I'd like to provide an update on two of our key strategic focus areas, namely driving operational excellence via our improvement program, which involves the re-engineering of learning environments and centre operating routines, and the development of centre manager leadership capability across a cohort of centres. Secondly, network growth and optimisation, covering the measured rollout of new greenfield centres and the divestment of previously impaired centres.

Firstly to our improvement program. The constraints on capital on operating expenditures are in place for much of 2020, delayed some of the planned strategic initiatives such as the refurbishment of our centre network. Pleasingly, excellent progress was made in the implementation of high-quality learning environments and team member and child safety. Starting with safety, as a result of a number of initiatives such as the national injury hotline and enhanced training and communications framework, the Group reduced its lost time injury frequency rate to team members, by 47%.

From a child safety viewpoint we leveraged our partnership with Bravehearts to jointly develop and enhance a child safety program within the initial modules being completed in 2020 and the first part of 2021. The Group successfully delivered enhanced learning environments in 94 centres in 2020, building on the success of the initial pilot group of 12 that were completed in 2019. The initiative includes both training the team on educational practices, as well as the redesign and implementation of in-centre learning environments.

Results have been encouraging, with the centres showing positive uplift in terms of quality, family feedback and occupancy. The 2021 improvement program's progressing well with 118 centres being covered in the program in the first half of 2021. As shown above, the results from the 2020 cohort are in line with our expectations for the year to date, both in terms of occupancy and earnings growth.

The Group's signed agreements for lease for eight new greenfield centres, with expected delivery timing and outflows be updated at the half year as council and building approvals are progressed further. Given the revised greenfield approach and the transition to statutory reporting, an update will be delivered in June to give investors and analysts further visibility on how performance of the greenfield portfolio will be reported.

We continue to make good progress on our portfolio optimisation activity. The divestment process for previously impaired centres is on track, with 13 sales or lease surrenders being completed, a further two agreements signed awaiting completion, and in-principle agreements reached for another seven centres. The 13 completed divestments account for approximately \$1.9 million in calendar year '19, annualised EBIT losses, and excluding the remaining 39 impaired centres, G8's network occupancy would have been 2.5 percentage points higher, reinforcing the material benefit of exiting these centres.

Now turning to an overview of the market operating environment, there have been two recent announcements, one relating to subsidy arrangements and the second relating to remuneration for Bachelor qualified early childhood teachers. In the recent federal budget announcement, the government announced an increase in childcare subsidy from 1 July 2022, to providing improved affordability for families with multiple children in care, and removal of the subsidy cap for those families exceeding the relevant income threshold.

We welcome these measures and the overwhelming support for the early education sector, as well as the recognition that investing in the sector is not only an investment in the Australian economy and workforce, but an investment in the learning and development of our future generations. We are very supportive of measures designed to remove structural barriers and facilitate improved accessibility and affordability for all families.

The second announcement relates to early childhood teachers, or ECTs, employed under the Educational Services (Teachers) Modern Award, and a recent decision handed down by the Fair Work Commission. As a result of the view, a new pay structure will deliver pay rises of between 5% and 10% for ECTs, in addition to current pay rates, depending on the current pay step of the teacher.

Some ECTs will be eligible for higher increases if they have more responsibility as the Educational Leader. The Commission will be engaging with relevant parties on items such as the operative date of the proposed increases and potential phasing-in. With respect to G8, this decision applies only to the circa 900 ECTs that are employed by G8, all of whom are currently being paid above award wages. We look forward to providing a further trading update in the Group's half year results announcement in August.

In closing, I'd like to thank all of the G8 education team members for their expertise and passion and commitment during an incredibly challenging period. Our team have been frontline workers during the pandemic, and the support they provided to the broader population was truly an inspiration. I would also like to echo Mark's thoughts and thank our shareholders for their continued commitment and support. Thank you, back to you.

Mark Johnston: Thanks Gary. So before moving to the specific business of the meeting, I will now summarise the shareholder question and voting procedures which will apply to this meeting. As set out in the notice of meeting there are four resolutions to be considered today, the resolutions have been outlined and explained in the explanatory statement that accompanied the notice of meeting. I will put each resolution to the meeting. Shareholder questions submitted online which are relevant to the resolution will be read out by our Company Secretary and answered.

I will then advise the number of proxy votes received on each resolution before moving to the next item of business. In terms of shareholder questions, only shareholders or corporate representatives of shareholders or those holding a valid proxy from a shareholder are entitled to submit questions. Instructions for how to lodge a question online are set out in the presentation today. There is also an online guide available via a link at the bottom of your screen. That guide is also available on our corporate website under the 2021 AGM tab.

I encourage shareholders who have questions, to submit your questions as soon as possible. The procedure for voting will be as follows. The proxy votes are contained in our presentation today which will be displayed on the screen at the appropriate time. All resolutions being put to the meeting today will be determined via a poll. All undirected proxies will be voted by myself in favour of the resolution, the extent I am permitted to do so. You may place your votes at any time using the voting card on your screen.

For assistance with voting, there are instructions in our presentation today. There is also an online guide available via a link at the bottom of your screen. Again, that guide is also available on our corporate website under the 2020 AGM tab. Each resolution set out in the notice of meeting, other than resolution 4, is to be considered as an ordinary resolution and as such must be approved by a simple majority of the votes cast by shareholders entitled to vote and voting on the resolution.

Resolution 4, which relates to the proposed amendments to the Company's constitution, is being put as a special resolution, which in order to pass must be approved by at least 75% of votes cast by shareholders entitled to vote and voting on the resolution. Shareholders can submit their votes online until five minutes after the meeting closes. Once the voting is closed, our share registry provider, Link Market Services will tabulate the results which will be released as soon as possible today on the Australian Securities Exchange. Those results will also be displayed on our corporate website once available.

Before proceeding to our first item of business, let me introduce our auditor for the 2020 financial statements, Mr Ric Roach from Ernst & Young, who has joined us via teleconference today, and he's available to take questions on the conduct of the audit and the preparation and content of the independent external auditor's report.

All questions should be directed to myself as Chair of the meeting, and I will then invite any other Director or relevant person to respond as appropriate. So, ladies and gentlemen, I now turn to the financial statements for G8 Education Limited. You have received the annual financial report, director's report and auditor's report for the year ended 31 December 2020. I now invite discussion on the financial statements and annual report, including questions on the business or operations of G8 Education Limited or on the management of the Company generally.

Questions that have been submitted regarding other items of business will be held until we come to that item. Tracey, are there any questions that you'd like me to address?

Tracey Wood: There are no questions on this item, Mr Chair.

Mark Johnston: So, as there are no questions, we will now move onto the formal resolutions. As a reminder, you can place your vote with respect to the resolutions, before the meeting at any time using the virtual loading card. The first resolution on the notice of meeting is a non-binding resolution to adopt the remuneration report. Please note that the vote on this resolution is advisory only and does not bind the Directors or the Company. Voting exclusions apply to this resolution as set out in the notice of meeting.

The resolution is that the remuneration report for the year ended 31 December 2020 be adopted. I now welcome questions with respect to the remuneration report. Tracey, are there any questions?

Tracey Wood: Mr Chair, there's no questions on this item of business.

Mark Johnston: Okay, so there's no questions in respect to this item of business. Proxy votes have been received in respect of this resolution and the results of the proxy votes appear on the slide presentation that you have before you. I'll just pause for a second so you can read that. I'll now move to resolution 2, the re-election of Mrs Margaret Zabel. The Company seeks members' consideration and if thought fit, to pass the following resolution as an ordinary resolution, that Mrs Margaret Zabel, having been re-elected on 20 April 2018 as a Director in accordance with the Company's constitution, retires as a Director of the Company and being eligible offers herself for re-election as a Director of the Company, be elected as a Director of the Company.

As stated in the notice of meeting, Margaret is seeking re-election as a Director and she has the full support of the Board for her re-election. I confirm that the Board considers her to be an independent Non-Executive Director. Margaret's background, qualifications and experience do appear in the explanatory notes to the notice of annual general meeting, which you will have received.

I'll now invite Margaret to give comment in relation to her re-election. Margaret, over to you.

Margaret Zabel: Thank you, Mark and good morning. It has been a privilege and a responsibility to serve on the Board over the last three years and contribute to G8 Education's vision to be the best-in-class educator and the first choice for parents to care for their children. In adding to the diversity of the skills and experiences to the Board, I bring expertise in customer-centred business strategy and transformation, marketing, innovation, communication, digital technology and family experience.

[Some] of my key involvement in G8 has been in the development customer facing strategic programs to raise the bar in a family's childcare experience, improve operational excellence as well as create differentiation for G8. The programs include reimagining the childcare experience through products, services, design, technology and how we engage with the family. Improving the quality of our communications, digital interactions, parental support and attraction and retention of families, and providing counsel during COVID on better supporting families attending centres and also at home.

In the last year I've also been chairing the Property Working Group which has been established to provide direction and oversight over the improvement, optimisation and growth of our centre portfolio. My commitment to early childhood education continues to grow with the increasing evidence of its importance bettering children's futures as well as their families and broader societies. I passionately believe that G8 Education has a tremendous opportunity to play a significant role in shaping this sector in Australia.

It is without hesitation I put myself forward for re-election to continue to work hard and play an important part in realising the potential for us all. Thank you for your consideration and support.

Mark Johnston: Thank you very much, Margaret. Are there any comments or questions, Tracey, regarding Margaret's re-election?

Tracey Wood: Mr Chair, there's no questions on this item of business, however we have had a question in relation to general business that has been submitted. Are you okay if I read that out now?

Mark Johnston: Why don't we finish this resolution and then we'll come back? So, proxy votes have been received in respect of this resolution, the results of the proxy votes appear on the screen before you. Obviously, Margaret will not be voting on this item. So, before I move to resolution 3, let's deal with the question that perhaps should have happened before resolution 1, but let's nevertheless do the right thing and deal with that now. So, over to you Tracey.

Tracey Wood: Mr Chair, the question has been submitted by Sam Benjamin, the question is, which centres of which brands that you have bought are you divesting off, and when were these acquired?

Mark Johnston: Thanks for your question, Sam, I'll hand that question to Gary. So, Gary over to you.

Gary Carroll: Well first point worth noting is that the centres that we're divesting form part of the impaired centre group that Mark talked about at the start. There's 52 centres in total, they cover multiple brands in multiple locations and bought at various different times. As part of the process of estimating future cashflows, that was conducted on a centre-by-centre basis and the results for that generated the 52 impaired centres. So, the focus wasn't so much on brand and time of acquisition, it was more on the centre characteristics themselves.

Mark Johnston: Just to elaborate, no one brand has dominated in that particular exercise, and it was based centre-by-centre. So, regardless of brand, very much based on, as Gary said, the individual cashflows against the various requirements we have, lease and other requirements. Thanks for that question, Sam, hope you're well. Okay, Tracey, any other questions that anybody's bought forward that I should go back to?

We'll move to resolution 3, regarding the issue of performance rights to the Managing Director and Chief Executive Officer. This resolution relates to the granting of performance rights pursuant to the G8 Education Executive Incentive Plan. G8 Education Limited seeks members' consideration [if any thought] fit to pass the following resolution as an ordinary resolution.

That approval will be given for the purposes of listing rule 10.14 and for all other purposes to the grant of 583,406 performance rights the Company's Chief Executive Officer and Managing Director, Mr Gary Carroll, and for the purposes of Section 200E of the Corporations Act, to the giving of a benefit to the Company's Chief Executive Officer and Managing Director, Mr Gary Carroll, in connection with any vesting of those performance rights on the cessation of Mr Carroll's employment with the Company or related body corporate of the Company. In each case under the G8 Executive Incentive Plan and on the basis described in Section 3.1 of the explanatory statement. Tracey, are there any comments or questions regarding this resolution?

Tracey Wood: Mr Chair, there are no questions raised on this item.

Mark Johnston: So, proxy votes have been received in respect of this resolution, the results of the proxy votes appear on the presentation slide before you. Voting exclusions do apply as set out in the notice of meeting. I'll now move to resolution 4 regarding the approval of amendment of the Company's constitution.

As outlined in the explanatory statement to the notice of meeting, the Board and the Company's legal advisers reviewed the Company's constitution to consider whether any amendments were necessary or desirable given developments and potential future developments in corporate law and governance since the constitution was last amended. The amendments proposed to the constitution relate to shareholder meetings and are to ensure that the Company has flexibility to hold virtual shareholder meetings in the future should they be permitted at the relevant time under the Corporations Act.

As mentioned earlier, while these constitutional amendments are sought to provide flexibility, it is the Board's current intention to run the Company's Annual General Meeting in future years as a hybrid meeting, which will allow our various stakeholders to participate either in person or virtually. The Company seeks members' consideration, and if thought fit to pass the following resolution as a special resolution, that with effect from the conclusion of the Company's 2021 Annual General Meeting, the constitution of the Company as amended in the manner described in Section 3.2 of the explanatory statement and as shown in mark up in the attachment to the explanatory statement.

Are there any comments or questions regarding this revised constitution, Tracey?

Tracey Wood: There are no questions submitted on this item of business, Mr Chair.

Mark Johnston: Thank you, proxy votes have been received in respect of this resolution, the results of the proxy votes appear on the presentation slide before you. No voting and restrictions on voting applies to this particular resolution.

So, that's the end of the business being put to the meeting today. Please ensure that you submit your votes online using the online voting card if you've not done so already. As mentioned earlier, shareholders can submit their votes online until five minutes after the meeting closes. The results of the four polls taken today will be announced to the market as soon as practical after the meeting.

Thank you, ladies and gentlemen, for joining us online today. That brings us to the end of the meeting. On behalf of the Board I thank you for your attendance to the meeting and your interest in the Company. We look forward to your ongoing support in the coming year. I'll now declare the meeting closed. Thank you once again.

End of Transcript