ASX Announcement

G8 Education Limited
(ASX:GEM)

24 August 2020

FINANCIAL RESULTS FOR THE HALF-YEAR ENDED 30 JUNE 2020

G8 Education Limited (the "**Group**" or "**G8**", ASX: GEM) today announced its results for the half-year ended 30 June 2020.

HY20 Overview

- Underlying EBIT of $29m, down 44% on the pcp and revenue of $308m, down 28% on the pcp, driven by capped revenue model under the Government's 'free' childcare package (in place between 6 April to 12 July)
- Statutory loss after tax of $239m, resulting from a non-cash impairment charge of $237m, as flagged by the Group on 11 June 2020
- Swift implementation of a comprehensive COVID-19 plan to protect families and teams, and ensure continuity of care and employment
- $301m in equity raised, providing a strengthened balance sheet (net debt reduced to $57m) and significantly reducing the Group's leverage (from 2.3x in December 2019 to 0.4x in June 2020)
- Successfully achieved cash preservation and cost savings targets (as set out in the Group's April equity raising presentation)
- Strong cash conversion of 98%, reflecting impact of cost control measures and disciplined cash management
- Temporary suspension of the Group's dividend policy, with the exception of the CY19 fully franked dividend of 6 cents per share payable in October 2020
- Government support of the sector throughout COVID-19 period, reinforcing the socio-economic benefits of the sector to the Australian economy

Managing Director and Chief Executive Officer, Gary Carroll said:

"Whilst G8 had a strong start to 2020, the impact of COVID-19 on the economy, the sector and our families has been significant.

"The Group quickly adapted to the changing environment and took swift action to implement a comprehensive operational and business continuity plan to ensure the health and safety of our families and teams, as well as safeguard the business through prudent financial management.

"Our revenue during the first half was impacted by the initial Government support package which capped revenue for providers, irrespective of occupancy figures. Following the immediate hit to occupancy at the start of the pandemic, we saw occupancy levels increase during the period of Government-supported free childcare. With the exception of Victoria, occupancy has continued to grow steadily, even after the re-introduction of the Child Care Subsidy in mid-July.

"Having completed the equity raise in April, and successfully achieving the cash preservation and cost savings targets we set for ourselves at that time, we have a robust balance sheet, prudent gearing levels and the financial flexibility to successfully navigate this period.

"The Government's support measures have played an important role in ensuring the viability of the broader sector and demonstrate the mechanisms in place to quickly respond to COVID-19 lockdowns, as we have seen in Victoria. It also reinforces the growing recognition of the significance of the sector to the economy and our children's futures.

"I have been immensely proud of our team who have shown incredible commitment and resilience. As a result of their efforts, we have been able to provide continuity of care to our families and our communities through a highly challenging period.

"Although it is impossible to predict the duration and ongoing impact of COVID-19, the measures we have taken ensure the Group is well-positioned to be agile and responsive during this current period, and the recovery period that will follow."

FINANCIAL PERFORMANCE

The initial impact of COVID-19, which saw families withdrawing their children from care resulted in occupancy and attendance levels hitting a low in April. Those levels recovered as initial COVID-19 cases were managed and as a result of the Government's initial 'free' childcare support package.

The impact on occupancy and attendance levels following the cessation of the initial childcare package on 12 July and the re-introduction of the Child Care Subsidy on 13 July has been more subdued than expected, with occupancy growing steadily in all States with the exception of Victoria.

The Group's current occupancy is 69% with attended occupancy of 50% with COVID-19 impacts varying by region and state at various times.

The Group reported underlying EBIT of $29 million, down 44% on the pcp, largely driven by the Government's initial childcare support package, which capped revenues for providers irrespective of occupancy levels.

The Group reported a statutory loss after tax of $239 million, resulting from a non-cash impairment charge of $237 million following the Group's strategic portfolio review (as flagged in the Group's announcement on 11 June 2020). The impairment is non-cash in nature, has no impact on the Company's debt facilities or compliance with its banking covenants.

BALANCE SHEET STRENGTH AND DISCIPLINED CAPITAL MANAGEMENT

A range of initiatives were successfully implemented during the period to strengthen the company's balance sheet, preserve capital and reduce costs.

The Company's $301 million equity raising in April (with net proceeds of $290m) significantly reduced the Group's leverage (from 2.3x in December 2019 to 0.4x in June 2020 on an underlying EBITDA basis) and strengthened its balance sheet, with net debt reduced to $57 million.

G8 also successfully achieved the cash conservation and cost savings targets set out in the April equity raising presentation and achieved strong cashflow conversion of 98%.

In addition, the Group received strong support from its lenders, with bank covenant relaxations further extended to 31 December 2021.

DIVIDEND

The Group's dividend policy remains temporarily suspended to preserve cash. The deferred CY19 final dividend of 6 cents per share will be paid on 30 October 2020.

A dividend may, subject to financial performance, be paid in respect of CY21.

PORTFOLIO OPTIMISATION

The Group is focused on driving growth in its turnaround and greenfield centres, including through a dedicated centre improvement team, and maximising the performance and quality of its centre network and cost base.

Following its strategic portfolio review, the Group is divesting its Singapore business, which is expected to complete in the second half of the year, subject to satisfaction of certain conditions precedent. This will enable G8 to focus its attention on maximising the quality and performance of its Australian portfolio, including ensuring the business emerges strongly from the current COVID-19 operating environment.

The Group also completed its greenfield pipeline in CY20 H1, with a new approach now being adopted to secure attractive future locations involving high quality partners and lower capital investments.

TRADING OUTLOOK

COVID-19 impacted trading conditions are expected to continue and given this backdrop the Group will continue its disciplined approach to cost and cash management.

The Acceleration Program has continued despite COVID-19, focusing on consistent high-quality education programs and family experience.

Government funding mechanisms are in place until the end of September, with a track record of swiftly responding to COVID-19 driven lockdowns.

The national footprint of G8's centres provides a degree of portfolio diversification protection, with COVID-19 impacts varying by region/State.

The removal of JobKeeper and Government stimulus is expected to impact unemployment levels. The level of restrictions will also impact bookings moving forward as will Government support for the sector (e.g. waiving parent fees).

A combination of the Group's net debt position, lender support and covenant relaxations until December 2021, provides the Group with substantial financial flexibility to withstand a prolonged downturn.

While current occupancy levels of 69% are solid, given the ongoing uncertainty and market volatility, G8 is not in a position to provide guidance on expected occupancy or financial operating performance.

With the changes implemented over the past few months, G8 now has the people, balance sheet and processes in place to emerge from the COVID-19 environment as a stronger business.

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This document has been authorised for release by the Board of Directors.

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