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ASX Announcement

G8 Education Limited
(ASX:GEM)

27 February 2024

G8 EDUCATION ANNOUNCES CY23 RESULTS

G8 Education Limited (the "**Group**" or "**G8**", ASX: GEM), a leading national provider of quality early education and care, today announced its results for the 12 months ended 31 December 2023.

HIGHLIGHTS

- Group revenue up 9.1% to $983.4 million
- Statutory NPAT of $56.1 million up 53.1% on CY22, driven by solid earnings recovery underpinned by improved operational performance
- Operating EBIT[1] of $100.6 million (versus $80.3 million in CY22), reflecting portfolio optimisation costs, AASB16 carrying value adjustments and other provisions.
- Group occupancy of 70.4% (vs 70.6% in CY22) stabilising in the second half, closing the gap to CY22 and providing a positive start to CY24
- Improved employee retention and recruitment metrics as well as families experience scores
- 90% of G8 long day care centres now rated as 'Exceeding' or 'Meeting' the National Quality Standard, while 93% of centres are 'meeting' or 'exceeding' NQS Quality Area 1 (Educational program and practice)
- Network optimisation program progressing well with 11 centres divested
- Strengthened balance sheet with conservative leverage of 0.4x Net Debt/Operating EBITDA[1]
- CY23 fully franked dividend of 3.0c per share declared, taking the full-year dividend to 4.5c, up 50% on CY22

TRADING PERFORMANCE

$M	CY23	CY22	Change
Revenue	983.4	901.3	9.1%
Statutory NPAT	56.1	36.6	53.1%
Basic earnings (cps)	6.9	4.4	56.8%
Net Debt (excluding leases)	58.7	90.1	(31.4m)
Excluding non-operating items			
Operating EBIT[1]	100.6	80.3	25.2%
H1	*32.7*	*21.0*	*55.7%*
H2	*67.9*	*59.3*	*14.5%*
Operating EBITDA[1]	245.5	214.1	14.6%
Average Group occupancy	**CY23**	**CY22**	**Change**
Average Group occupancy	70.4%	70.6%	(0.2%pts)
'Spot' Group occupancy	**CY24**	**CY23**	**Change**
Week ending 25 February 2024	66.3%	64.6%	1.7%
YTD ending 25 February 2024	66.9%	65.7%	1.2%

[1] *"Operating" excludes non-operating items and Kiddo and is after lease interest and depreciation. Refer to Note 6 of 2023 Annual Report for non-operating items.*

***NB** –Some amounts in this announcement have been rounded.*

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G8 Managing Director & Chief Executive Officer Pejman Okhovat said:

At our heart, we are a people centric organisation guided by our purpose, "creating the foundations for learning for life".

Our families' trust and confidence starts with our experienced team through whom we provide high quality education and care for the next generation of Australians. Our focus on improving the experience of our families, children and team across a multitude of initiatives throughout the year resulted in higher retention of our team, improved quality ratings of our services and improved experiences for our families reflected in higher customer retention, higher enrolment conversions and improving NPS.

Our team's effort in 2023 saw G8 Education continue to improve its financial performance by focusing on improving experiences for its families and employees, while maintaining a disciplined approach to running our business, optimising our network, and carefully managing costs and our balance sheet.

At our Strategy Day in late 2023, we announced a program of network optimisation to improve group performance. I'm pleased to report we have completed 8 of the targeted 31 divestments with another tranche of 8 with in-principal agreements.[2]

While this result demonstrates G8's strategic focus is building a stronger and more sustainable business, we know there is more to do. Improving occupancy remains a core focus with our largest states performing in line or above CY22 with further opportunities available in our smaller states.

In a macro environment which remained challenging, G8 employees should be proud of the part they played in delivering a strong result for the Group. Our Board and Executive team thanks them for their efforts.

We are also pleased to be in a position to reward our shareholders with a final dividend of 3 cents per share taking the total dividend to 4.5 cents for CY23, up 50 per cent on the prior year. We have also returned capital to investors through a buy back and reduced net debt to enhance shareholder returns."

FINANCIAL PERFORMANCE

CY23 operating NPAT (up 34% to $63.4 million) and statutory NPAT (up 53% to $56.1 million) growth and margin expansion were driven by improved centre performance, well managed support office costs and lower net finance costs.

Group revenue grew 9% to $983.4 million (CY22: $901.3 million) offsetting inflationary impacts. Operating costs were up 8% to $884.8 million, network support costs were down 2%, centre margin performance improved 1% pcp and wages as a percentage of revenue decreased by 0.7%pts pcp with agency costs continuing to trend down in H2 as employee retention initiatives delivered positive outcomes.

Operating EBIT increased 25% pcp to $100.6 million reflecting growth of 16% in centre earnings and a 2% reduction in Network support costs.

2. Completion is subject to other conditions.

The 9 centres exited in CY24 to date will remove $0.7m in statutory EBIT losses and $1.6m pre-AASB16 EBIT losses, with a circa 0.5% positive occupancy impact.

From a statutory perspective, NPAT increased by 53% to $56.1m with non-trading items including Software as a service development costs, portfolio related costs such as exiting centres and reviewing AASB16 carrying values and an increase in other provisions relating to restructuring, regulatory and legal matters.

OPERATING MODEL AND CENTRE EXPERIENCE

Occupancy remains a key focus for the Group with a number of employee and families-focused initiatives contributing to a stable outcome for the year of 70.4%, 0.2% below pcp. Family retention in H2 CY23 closed the gap to CY22, underpinning a positive start to CY24.

Occupancy in H2 of CY23 also benefited from higher frequency as a result of CCS changes and existing families attending more days. The larger states performed in line or above CY22 with further opportunities to improve occupancy trends in the smaller states. Pleasingly, G8 does not currently have any capped centres due to workforce constraints.

Efforts to retain and upskill employees, as well as attract new talent all resulted in improved outcomes in CY23 with ECT retention and materially reduced agency usage showing the biggest improvements on the prior corresponding period.

Employee retention improvements underpinned improvements in families' experience which was reflected in higher family retention, higher enrolment conversion rates and improving NPS.

90% of G8's long day care centres are now rated as 'Exceeding' or 'Meeting' the National Quality Standard, while 93% of centres are 'meeting' or 'exceeding' NQS Quality Area 1 – Educational program and practice.

STRONGER BALANCE SHEET AND PROACTIVE CAPITAL MANAGEMENT

The Group continued to strengthen its balance sheet, with leverage of 0.4X Net Debt/Operating EBITDA[2] in CY23 representing a decrease from the prior corresponding period (CY22: 0.8X).

There was an improved cash position on the prior corresponding period with positive free cashflow and solid cash conversion with net debt reducing to $58.7 million (CY22: $90.1 million).

The Board is committed to driving long-term sustainable value for its shareholders and has declared a CY23 fully franked dividend of 3.0 cents per share, payable in April 2024 and taking the full-year dividend payment to 4.5 cents per share (up 50% on pcp). At 65% of NPAT, this is towards the top end of G8's stated dividend range of 50-70% of NPAT.

TRADING UPDATE & OUTLOOK

Trading update

Group spot occupancy for the week ending 25 February 2024 was 66.3%, 1.7% higher than CY23, and YTD as at 25 February 2024 was 66.9%, 1.2% higher than CY23. This improvement was supported by a refined enrolment and transition program and process. The waitlist process was also streamlined and has improved tour success during the E&T program.

A fee increase of 4.5% was implemented in January 2024 to mitigate the continuing inflationary environment.

G8's capital allocation framework supports strong cashflow with 2024 capex estimated to be $40 - $45 million. Network optimisation is proceeding well with 9 centres exited post 31 December 2023. The Group's balance sheet remains strong with conservative leverage.

Outlook

We remain focused on delivering a "Fit Core" in a dynamic and challenging environment.

Demand outlook for the ECEC sector is improving, with momentum slowly building. Net supply increased by 3.6% yoy. Government investment in kindergarten will assist with affordability in 3-5 year old cohorts.

Workforce shortages remain a sector challenge, however, attraction and retention strategies are reducing this impact. Inflation is easing, however, 'cost of living' issues will continue to play a role in our families' affordability. Regulatory focus on the sector expected to continue through CY24. G8 will continue to advocate for the sector and our team

G8's near term focus is on the following 'high impact' areas:
- Operational execution to drive performance;
- Disciplined controls on cost and efficiency; and
- Our 6 strategic focus areas to deliver a 'Fit Core".

ENDS

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

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