Evolve Education Group Limited

Chair's Address

Annual Meeting, 17 August 2017

It is now 33 months, almost three years, since Evolve listed in December 2014.

Our first two years have been full of the start-up and get running type challenges that all businesses face and require a certain set of skills and capabilities.

Evolve is now established and in this current phase the focus is on establishing and embedding our ongoing business and operational model. Key personnel changes that reflect this emerging maturity of the business include Fay Amaral COO and Stephen Davies CFO who joined the senior executive team this time last year and he appointment of three new directors, Grainne Troute, Anthony Quirk and Lynda Reid.

The board has a firmly positive view about the future.

The majority of our centres are purpose-built and the majority of those are in good condition, something teachers, parents, children and ourselves can be proud of. We will be undertaking a full portfolio review of our centres later in this calendar year to ensure we are where we want to be in terms of location and quality.

Although we are moving gradually into the new centre territory domain, acquisition of existing operations will remain an important component of our overall strategy.

Performance

On the performance front, profits in FY16 and FY17 have been steady, if unspectacular, at $15.6m and $15.9m respectively.

This year to date we have experienced some incremental slippage in average occupancy across our 126 centres and some creep up in wage to salary ratios as a consequence of this occupancy dip and lack of rostering responsiveness across our centre network. Dealing with incremental occupancy slippage creates difficulties for centre managers for their staff cost management.

We can and will fix these issues but our first half result will inevitably be impacted by this year to date trend.

The softer than anticipated start to the year is taking some time to correct and, as a consequence, our first half result will be significantly down on last year.

Although the occupancy decline is relatively incremental, at 2% points across the centre network and the salaries to revenue ratio has crept up 4% points, the cumulative impact is not insignificant.

We are predicting the first half result to come in lower than first half last year at circa $7.0m.

In a like with like comparison with last year's $8.8m, it is important to call out two costs which have impacted this year being the start-up phase of new centre openings (-$160k) and the accident of this year's calendar with Easter weekend in this half year period but not in the last half year. The adverse impact of these 2 statutory days is approximately $430k after tax.

So on a like with like comparison to last year, we calculate we are down approximately 14%.

This is disappointing and it is fair to say we have been slow to react, but also fair to say that we are now in full response mode and are confident we can turn this around in the second half. Despite departing the board, Mark Finlay's sector expertise and operational pragmatism will not be lost to the

business. Mark is providing very effective hands-on assistance to management in our current recovery.

Last year's full year result was $15.9m and it will now be difficult to match that, but with a strong management response between now and March, we would expect to end the year in the range $14.0-$15.0m, operating earnings after tax.

Alan will speak more about operations and performance and the recovery effort, shortly.

Despite the weaker year this year, the board is very confident about next year. For FY19 , we anticipate a significant uplift in earnings as our brand and digital strategies which are currently being implemented, deliver a full year impact.

We are very confident about our future but note that it lies just around the corner, a bit ahead of where we are now.

We will report current year first half on 17 November, at which time we expect to provide further detail on how this year has been progressing and a firmer insight on the potential outcome for the full year.

In terms of building and investing for the future, Fay Amaral will address the meeting today to provide some insights into the brand consolidation and clarity and CRM/digital initiatives that are being implemented to help deliver increasing revenues on a sustainable basis going forward.

Qualified Teachers

There has been widespread publicity about the national shortage of teachers in New Zealand and this is having an impact on the business. Apart from the increased recruitment effort required from centre managers when supply is tighter, with teacher to children ratios needing to be strictly adhered to, a shortage of qualified staff has a flow-through consequence for the business.

Acquisitions

We have identified that the acquisition of existing businesses takes significant attention during the post-acquisition period in order to protect the important cultural relationship with staff and parents that underpins the financial performance of that acquisition.

As a consequence, we are scaling back our annual target to a more manageable 8-12 per annum, rather than trying to run too fast at a target rate of 15-20 centres. Acquisition of the Little Wonders Group of six centres in June has set the company well on the way to its target for this year.

In the acquisitions space there is reasonable competition for good centres and vendor price expectations have continued to rise, in many cases, above our willingness to pay.

Development Centres

All of which points us in the direction of our development strategy - emerging clearly as the important play for the company as we look ahead. New developments are purpose-built, are new (attractive to parents and teachers alike), will be well-located, and there is no goodwill to pay to an existing owner.

New centre developments take longer to come on stream than acquisitions but once a regular pattern of developments has been able to be established, our overall company cash flows will settle into a more regular pattern.

The temporary drag on earnings and cashflow, as we build into the new development programme, is something we have to get through, but it will be worth the element of patience required.

Brand and Digital

The company's brand consolidation and clarification strategy, supported by an easy to use digital framework for enrolments and enquiries, and staff recruitments is the other significant piece of our puzzle.

Growth

Our objectives remain clear – to provide top quality and sought-after early childhood education within well located, high quality facilities, within strong and well-understood curriculum and learning environments, and, at the same time to provide a healthy and viable return for those who have invested in the business. We remain confident that we are on the right track and have the capability to achieve our growth aspirations.

Portfolio Progress

Alan will provide some insights into the FY17 financial performance but let me first summarise the key elements of our portfolio progress.

In the year ended 31 March we were reasonably active, acquiring 15 centres and in October last year we opened a new development centre at Pegasus just north of Christchurch. Since 31 March we have acquired a further six centres, sold one in Westport (South Island), and opened another new development centre also at Pegasus/Christchurch, in June.

We are in progress towards opening an additional three new centres during the next 12 months, a 93 place centre at Hillsborough in Auckland will open shortly, in September, a 75 place centre at Papakura in January 2018 and a 100 place centre at Mt Wellington in September next year. Our roll out of new centres is starting to gather good momentum.

We are confident that our strategy to transition more towards new, purpose built, goodwill-free centres is the right approach, whilst at the same time we will continue to grow the portfolio with more carefully selected and paced acquisitions.

Governance

As referred earlier, on the governance front, we have recalibrated our board.

It is fair to say that with a board headcount of four non-executive directors, we have run a bit light during the post-listing period and so, after two years, the board added additional strength and diversity with the appointment of Grainne Troute, an experienced listed company leadership executive with extensive credentials across a wide range of relevant disciplines and a developing governance portfolio.

Grainne is standing for election at this meeting and will speak to her election when we move to the resolutions.

Greg Kern, Evolve's founder director and the brains behind the company listing in 2014, is retiring at this meeting. Greg has been a great director, contributing a highly and sometimes provocative entrepreneurial streak to board discussions and thinking. We acknowledge Greg's very significant contribution to getting this company up and running.

Mark Finlay has been on the board since listing and is a substantial shareholder in Evolve, having sold his Lollipops business into the float. Mark has top calibre operational and property development credentials in the early childhood sector and has been our industry expert thus far.

As a director, a significant shareholder, and as the landlord and developer of some of our properties, Mark is classed as a related party of the company and this causes complications and issues with many of our investors. Some are ok with it, others are not - as a matter of governance principle.

Although we have had strict rules in place around how the Mark relationship has been managed internally we believe that Mark can now contribute more effectively from outside the boardroom. Mark, being Mark, will continue to assist the company and provide external counsel and advisory to senior management on an ongoing basis, and we welcome that. And he will continue to source new centre opportunities and provide Evolve with a first option. At the same time, we get to keep our options open with other developers.

With two directors retiring we are very pleased to have been able to attract two high calibre replacements in Lynda Reid and Anthony Quirk.

Lynda and Anthony's credentials are set out in the Notice of Meeting and they will speak to their elections shortly. Anthony is here in person, but Lynda is overseas completing a well-deserved sabbatical year in France, after 20 years as Principal of St Cuthbert's College. Lynda returns to New Zealand in September.

Anthony is well known in New Zealand financial circles as the previous Managing Director of Milford Asset Management and, before that, Tyndall Investment Management (NZ) Limited.

At this meeting we are seeking support for the elections of Grainne, Lynda and Anthony.

The board will then comprise these three new directors plus continuing non-executive directors Norah Barlow and myself and Alan Wham, Managing Director. I believe we have a top calibre board with excellent diversity and relevant experience to oversee the growth and expansion of this company and its somewhat unique portfolio of responsibilities to the community generally, parents, children, working families, to the quality of early childhood education in New Zealand, teachers and staff, and to shareholders.

Funding

In terms of funding our growth and development we have regular and reliable cashflows and good funding and banking relationships with ASB Bank. At this time, we see no current or near term funding pressure which might restrict our growth aspirations.

Dividend

We are confident of the business model and cash flows and anticipate continuation of our dividend policy and payout ratios going forward.

GST Dispute (Porse)

At this stage we have no further progress to report in respect of our dispute with Inland Revenue over GST relating to Porse in-home contracts.

Conclusion

In wrapping up my address, let me say that we have our eyes on the road ahead and will continue to set in place the important building blocks and structures to build a robust long term future for this business.

I will now hand over to Alan to outline some key aspects of the FY17 year, where we are now, and where to from here in terms of management and operations.