

8 May 2019

Evolve Education Group announces NZ\$63.5 million fully underwritten capital raising

- **Evolve Education Group acts to strengthen its balance sheet and fund the initial phase of an expansion in Australia**
- **Raising NZ\$63.5 million through a fully underwritten 4.4 for 1 pro rata accelerated rights entitlement offer at NZ\$0.08 per share**
- **Funds will be applied to repay borrowings (NZ\$30.0 million), fund an initial phase of an Australian expansion (NZ\$25.0 million) and for working capital and costs of the offer (NZ\$8.5 million)**
- **FY19 unaudited underlying EBITDA expected to be NZ\$13.3 million, consistent with guidance given with 1H19 results and reconfirmed on 5 April, 2019**
- **FY20 underlying EBITDA for the New Zealand business anticipated to be in the range of NZ\$8.5 - \$11 million**
- **Board Chair Alistair Ryan to retire from the Board of Evolve upon completion of the offer with a search for a suitable New Zealand-based candidate in progress. Norah Barlow intends to retire and not seek re-election at Evolve's 2019 Annual Meeting, subject to Alistair's replacement having been appointed to the Board at that time**
- **A further goodwill impairment charge of \$75 million (taking full year non cash impairment expense to \$107.1 million) expected to be reflected in the March 2019 full year result**

Evolve Education Group Limited (Evolve) (ASX, NZX: EVO) announces it is raising equity to strengthen its balance sheet and to fund investment in the initial phase of an Australian expansion alongside its New Zealand turnaround plan already underway. The equity raising is part of the capital management strategy agreed with Evolve's debt funder ASB Bank.

Evolve is raising NZ\$63.5 million through a fully underwritten accelerated rights entitlement offer (AREO), enabling eligible shareholders to purchase 4.4 new shares for every 1 existing share held as at 7.00pm (NZ time) on 10 May 2019 at an application price of NZ\$0.08 per new share. The application price represents a 25.8% discount to the theoretical ex-rights price. The offer will comprise institutional and retail entitlement offers, with any entitlements not taken up by eligible shareholders and entitlements of ineligible shareholders being offered for sale through bookbuilds run by the lead managers of the offer.

Evolve Board Chair Alistair Ryan says the AREO structure was chosen to ensure all shareholders were treated equally and fairly.

"Shareholders taking up their rights won't face any dilution of their economic interest," he said.

The offer is fully underwritten by Canaccord Genuity (Australia) Limited and Forsyth Barr Group Limited, reflecting confidence in market appetite for Evolve's strategy in New Zealand and Australia. Chris Scott, Evolve's 19.0% shareholder (via J 47 Pty Ltd) and a director, is supportive of the equity raising and has committed to take up all entitlements. The other shareholding directors, Alistair Ryan and Norah Barlow, have also committed to taking up all entitlements.

The Institutional Entitlement Offer opens today and closes at 4pm (NZ time) tomorrow (9 May) with an institutional book build running 9 – 10 May. The Retail Entitlement Offer will be open from 13 May until 5.00pm 29 May, with a retail book build on 31 May. Allotment of shares and trading of new shares on the NZX and ASX for institutional shareholders is expected on 17 May, and for retail investors, on 6 June.

NZ\$30.0 million of the proceeds from the offer will be used to repay borrowings, and a further NZ\$8.5 million will be utilised for working capital purposes and to meet the costs of the offer. The reduction in bank debt will allow Evolve to remain within its bank covenants while delivering its business turnaround plan over the next three years.

Evolve's recently-appointed CEO Rosanne Graham and a refreshed management team are focused on restoring the performance of Evolve's New Zealand operations. A business turnaround plan is being implemented and significant progress is being made in addressing a number of fundamental issues that will lead to improved family retentions, employee engagement and occupancy.

Evolve has also identified an opportunity to strengthen and diversify its business by investing in the Australian child care sector. Recent increases in Australian federal government funding for child care and strong historical growth in demand for child care services have increased the attractiveness of this sector. The current timing is believed to be favourable to implement a long-day-care centre acquisition strategy due to the availability of profitable centres for purchase at attractive valuations.

Evolve intends to acquire up to 12 centres in Australia as part of the initial phase of its Australian expansion, funded with NZ\$25.0 million (A\$24 million¹) of the offer proceeds. Importantly, it is expected that this initial phase of the Australian expansion will meaningfully contribute to Evolve's earnings, as only profitable centres will be targeted for acquisition. The initial phase will be used to prove up the case for a broader Australian strategy prior to any further investment in that market.

Following the recent appointments of Chris Scott and Chris Sacre to the board, Evolve has developed a strong understanding of the early child care sector in Australia. Chris Scott and Chris Sacre will lead the Australian Initial Phase. An established team in Australia already operational and immediately available, led by Chris Sacre, will enable the initial phase of investment to be pursued. This will allow the management team in New Zealand to continue to fully focus on Evolve's New Zealand operations. Chris Scott and Chris Sacre will remain on the Board and become Executive Directors.

¹ Converted using the AUD/NZD exchange rate on 7 May 2019 of 0.94.

The company also announces that its Chair Alistair Ryan will be retiring from the Board on 15 June 2019. A search is well underway for a suitable New Zealand-based independent director to fill the vacancy created by Alistair's retirement. Director Norah Barlow intends to retire and not seek re-election at Evolve's 2019 Annual Meeting, subject to Alistair's replacement having been appointed to the Board at that time. Evolve will seek to replace Norah with a further New Zealand based Independent Director.

"Once the Offer has been completed, the time will be right for a new independent director to join the Board as Board Chair," said Mr Ryan. "The recruitment process for my successor is well advanced but will only be concluded following completion of the capital raise. I am confident that, as a result of the additional equity capital we are raising, the progress the management team is making in improving the New Zealand business, and the opportunity for expansion in Australia, Evolve's future prospects are significantly enhanced."

At its half year results in November, 2018, Evolve projected underlying EBITDA for the full year to 31 March 2019 in the range of NZ\$12 - \$14 million. Evolve then narrowed its earnings guidance, on 5 April, 2019, to between NZ\$13.2 - \$13.6 million, and now expects underlying EBITDA (earnings before interest, tax, depreciation and amortisation, and before non-recurring items) to be NZ\$13.3 million. This result remains subject to confirmation as part of the year-end audit process. Evolve's audited FY19 results will be announced on 27 May. Underlying EBITDA excludes material non-recurring items including goodwill impairment and net gains on sale of assets.

At half-year FY19, Evolve also outlined the initiatives required to turn the business around and to establish a sustainable and quality platform for growth. A slow start to FY19 and a slightly greater than expected seasonal fluctuation since December 2018, has resulted in occupancy at the start of FY20 being 2% lower than this time last year. Evolve is confident that the turnaround plan will stabilise occupancy and that it will start to build from the latter part of FY20 onwards, but it is too early to predict exactly how soon in FY20 occupancy will start to lift. Underlying EBITDA for the New Zealand business for FY20 is expected to be lower than for FY19, and is in the range of NZ \$8.5 - \$11 million. This reflects the fact that Evolve's business is highly sensitive to small changes in occupancy (and pricing).

In addition, the investment in building the quality platform that supports the turnaround plan is more extensive than originally anticipated (an additional NZ\$2.3 million to the NZ\$3.3 million invested in FY19). However, this investment is critical for meeting obligations to the Ministry of Education and to deliver quality early childhood education to the children in our care. Results for FY20 will also be impacted by the divestment of the home-based division and other assets which contributed NZ\$0.5m EBITDA in FY19. Against this, diversification of revenue streams from the initial phase of Evolve's Australian strategy will provide additional earnings and broaden strategic options. The initial Australian phase is expected to involve the acquisition of NZ\$5 - 6 million of additional Underlying EBITDA on an annual basis. The impact on FY20 results will be dependent upon timing of centre acquisitions.

Recovery in New Zealand earnings from FY21 and beyond is expected as Evolve achieves the benefits of its increased momentum. This will enable Evolve to capitalise on its new platform to achieve greater scale and to improve earnings through targeted acquisitions and developments.

Following the capital raise and the repayment of debt Evolve is expected to be in a position to be able to recommence dividend payments. However, any decision to do so will be determined within a framework consistent with Evolve's most effective deployment of surplus earnings, either for distribution and/or reinvestment in the business. No dividend will be paid in respect of the FY19 year but the directors expect to provide more specific guidance as to future dividend policy at the time of the Annual Meeting.

Evolve also notes that a further unaudited goodwill impairment has been estimated for the FY19 full year results, resulting in a non cash impairment expense for the full year of NZ\$107.1m. This relates to the acquisition of early childhood centres in prior periods and reflects declining enrolments in FY18 and FY19 that have reduced the current profitability of the portfolio of centres. The impairment remains subject to the audit process.

"Today's offer announcement follows the review of our capital structure that we committed to last November," said Mr Ryan. "This equity raising will improve Evolve's financial strength as the company continues to execute the business turnaround plan that we outlined to shareholders in November 2018. The equity raising will also fund a focused and tightly managed initial phase of an Australian expansion that will contribute positively to Evolve's earnings, and represents an exciting new phase in Evolve's development."

Further information

Further details of the offer are set out in the Appendix to this announcement. Evolve has also lodged an Investor Presentation and Offer Document with the NZX and ASX today. The Investor Presentation and Offer Document contain important additional information.

Key dates

<i>Institutional Entitlement Offer and Institutional Bookbuild</i>	Date (2019)
Announcement and trading halt	8 May
Institutional Entitlement Offer opens (10am NZST, 8am AEST)	8 May
Institutional Entitlement Offer closes (4pm NZST, 2pm AEST)	9 May
Institutional Bookbuild	9 – 10 May
Record Date (7pm NZST, 5pm AEST)	10 May
Trading halt lifted on NZX / ASX (pre-market open)	13 May
ASX settlement	16 May
NZX settlement	17 May
Allotment and trading of new shares on NZX and ASX	17 May
<i>Retail Entitlement Offer and Retail Bookbuild</i>	
Record Date (7pm NZST, 5pm AEST)	10 May
Retail Entitlement Offer opens	13 May
Retail Entitlement Offer closes (5pm NZST, 3pm AEST)	29 May
Retail Bookbuild (trading halt in place)	31 May
ASX settlement	5 June
NZX settlement	6 June
Allotment and trading of new shares on NZX and ASX	6 June

The above dates and times may be altered by Evolve, subject to the NZX Listing Rules.

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