

evolve

education group

Transaction Summary
30 August 2022



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Lollipops Educare Centres Limited**

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Introduction



Introduction

- The board of Evolve are proposing a significant strategic realignment of the company
- Wholly owned subsidiaries of Evolve Education Group Limited (**Evolve**) have entered into a conditional share sale agreement dated 29 August 2022 with Shine BidCo Limited (**BidCo**), an acquisition vehicle for funds managed by Anchorage Capital Partners (**Anchorage**) to sell 100% of the shares in Lollipops Educare Centres Limited (**LECL**).
- LECL is a wholly owned subsidiary of Lollipops Educare Holdings Limited, itself a wholly owned subsidiary of Evolve, and is the operator of Evolve's New Zealand based centres.
- BidCo has agreed to purchase LECL for an enterprise value of \$46.0m (**the Transaction**).
- The Transaction is conditional on, amongst other things, approval by Evolve shareholders as an ordinary resolution in accordance with Rule 5.1.1 of the NZX Listing Rules. That approval will be sought from shareholders at a Special Meeting on 15 September 2022.
- The transaction will enable Evolve to redeploy proceeds to acquire assets in Australia, thereby accelerating its Australian growth strategy.
- It is the Board's [unanimous recommendation that shareholders vote in favour](#) of the Transaction.



02

Transaction details on the proposed sale of Lollipops Educare Centres Limited



Transaction details



Transaction

Sale of 100% of the shares in Lollipops Educare Centres Limited (LECL) between BidCo and Lollipops Educare Holdings Limited.

At completion, LECL will operate 105 centres.

Prior to completion, all of Evolve's New Zealand based centre staff will be offered employment with LECL. Evolve staff specifically involved in Evolve's Australian business and its listed company activities will continue to be employed by Evolve or its Australian subsidiary.



Vendor

Lollipops Educare Holdings Limited, a wholly owned subsidiary of Evolve. Evolve Early Education Pty Limited (Evolve Australia) has guaranteed the performance of the Vendor's obligations under the Agreement.



Purchaser

Shine BidCo Limited, as the acquisition vehicle for funds managed by Anchorage Capital Partners.



Enterprise Value

\$46 million, less net debt (inclusive of a capex adjustment of \$2.5m) and subject to adjustment post completion to reflect actual levels of completion net working capital against reference working capital.



Key Dates

Share Sale Agreement was signed 29 August 2022, with completion targeted for 30 September 2022

Conditionality

Completion under the Sale and Purchase Agreement is conditional on the following:

- The shareholders of Evolve approving the Transaction by way of an ordinary resolution for the purposes of NZX Listing Rule 5.1.1.
- Release of security being approved by the security trustee in relation to the notes issued by Evolve under the Information Memorandum dated 2 December 2020¹.
- Receipt of necessary change of control consents for specific leases.
- The parties not receiving any written communication prior to completion from the Ministry of Education that indicates that the Ministry of Education could reasonably be expected to take any materially adverse action in relation to LECL's ECE licences in response to the Transaction.
- OIO approval is not required.

1. Refer to Evolve's announcement to NZX and ASX regarding the same dated 27 November 2020, and notes 21 (Capital Management) and 24 (Financial Assets and Liabilities) in Evolve's financial statements for the year ended 31 December 2021 for further details as to the terms of these notes



The rationale for selling is largely to accelerate the execution of Evolve's Australian growth strategy



NZ performance has been severely impacted by Covid-19 restrictions over the past two and a half years.

Centres have been directly impacted by Government mandated closures in response to the COVID-19 pandemic, which have caused a decline in centre revenue (~\$6m in CY21), together with closed borders that has led to teacher shortages, lower immigration levels and a detrimental impact on overall centre occupancy. Occupancy has been slow to recover, as evidenced by the 1H FY22 results announcement.



The board sees **substantial opportunity in the Australian market** where it has seen continued successful execution of our Australian growth strategy.

- **24 centres** today (13 acquired in 2021)
- Acquired centres have contributed revenue of \$44m and underlying centre-level EBITDA of \$12.0m in CY21
- **Underlying EBITDA doubled** from 2020 to 2021, providing strong earnings and cash flow to the Group. Evolve's Australian operations contributed over 80% of the Group's underlying EBITDA in FY21.
- Australian centres have seen **strong occupancy** (FY21) of ~80%



The board believes that the funds from the sale of the New Zealand centres (via LECL) can be best allocated in the Australian market for a **targeted acceleration of the Australian growth strategy**.

- Acquisitions will be made with a stringent focus on prices which are sensible and sustainable
- We believe the current market conditions are highly favorable for centre acquisitions and market consolidation

Anchorage Overview

Anchorage is a leading Australasian private equity firm established in 2007. Anchorage has a strong track record of investing across a wide range of sectors, and has significant experience in the childcare sector. Anchorage previously owned Affinity Education Group Limited, one of Australia's largest providers of early education and childcare with a portfolio of over 150 centres.

As part of Anchorage's acquisition of Affinity, a comprehensive performance improvement program was developed to leverage the full potential of Affinity's portfolio of centres. There was significant investment in centre quality, curriculum, and systems and processes which drove above market occupancy growth. A strong focus on employee development and career progression led to a refreshed culture and material improvement in staff retention.

Simon Woodhouse and Callen O'Brien, Anchorage principals who were on the board of Affinity, will join the board of the purchaser. Anchorage has a deep understanding of the New Zealand market through a number of prior investments in the region.



After allocation of support and corporate functions, the implied CY21 EBITDA transaction multiple is 13.1x

31 December 2021* Actuals (NZ \$ million)	New Zealand	Australia	Support & Corporate	Consolidated
Number of centres	109	23	-	132
Childcare fees	36.2	15.6	-	51.8
Government funding	77.8	28.4	-	106.2
Total revenue	113.9	44.0	-	158.0
Operating expenses	(104.1)	(31.9)	(9.3)	(145.4)
Underlying EBITDA	9.8	12.1	(9.3)	12.6
<u>Carve out Allocations</u>				
Underlying EBITDA	9.8	12.1	(9.3)	12.6
Support and corporate functions being transferred	(6.3)	-		
Support and corporate functions being retained	-	(3.0)		
Pro forma EBITDA	3.5	9.1		12.6
Proposed Transaction EV	46			
Implied Transaction Multiple (including Support and Corporate)	13.1x			

* Evolve has provided pro forma financial information for the financial year ended 31 December 2021 as this was the last period subject to audit. Reference to the 1H FY22 results for the six months ended 30 June 2022 was considered, however was not adopted due to the associated trading disruptions in 1H FY22 together with the seasonality implication of Evolve traditionally performing more strongly in the second half of the year.

Net proceeds from the Transaction will be utilised to accelerate the strategic plan of acquiring quality Australian based early education assets

	NZ\$m
Enterprise Value	46.0
Plus cash to be retained by EEG*	10.0 to 11.0
Plus / Minus completion adjustments*	(9.5) to (5.5)
Gross Transaction Proceeds	46.5 to 51.5
Less transaction and other costs*	(4.5) to (2.5)
Net transaction proceeds	42.0 to 49.0

- Given the seasonality of the business, final Transaction proceeds are not able to be confirmed until after completion of the Transaction has occurred
- Under the terms of the notes issued by Evolve on 2 December 2020, proceeds from the divestment of assets needs to be redeployed on acquisitions of productive assets within a period of 6 months
- It is the Board's intention to redeploy proceeds from the Transaction to acquire quality early education assets in the Australian market

* Management estimates, final values will be determined by timing of completion

Implications of sale not proceeding

- Evolve will not incur financial penalties under the Share Sale Agreement if the Transaction is not completed, unless a director changes, qualifies or withdraws their recommendation that shareholders approve the transaction, or Evolve enters into discussions with other parties in relation to a similar transaction, in which Evolve may be required to pay \$700,000 to Shine BidCo.
- To date legal and other advisory expenses have amounted to ~\$300k.
- The centres operated under LECL require further investment for refurbishment of older centres in order to improve occupancy levels. Management estimate this to be in the quantum of \$4.5m over the next couple of years.
- Trading conditions over the short to medium term are unknown as New Zealand continues to respond to the COVID-19 pandemic. Profitability and the ability to pay dividends are difficult to forecast in the current market.



Key conditions

In addition to shareholder approval, the transaction is subject to a number of conditions, the satisfaction of which is outside of Evolve's control. If these conditions are not satisfied by 31 October 2022, the transaction will not proceed unless the parties agree to waive the condition or extend the date for satisfaction of the condition. Evolve's assessment of these conditions is set out below.

BidCo may also terminate the agreement if a material adverse event occurs prior to completion that is reasonably likely to have a materially adverse impact on the reputation of LECL or its business as a whole, provided that such impact must be specific to LECL or its business and not a general event or circumstance, and not be a result of the transaction itself.

Condition	Description	Mitigation
Ministry of Education Licenses Approvals	The vendor requires MoE to approve the change in directors in order for the company to retain the benefit of centre licenses. Evolve considers the risk of MoE sending any written communication prior to completion that indicates that the MoE will take any adverse action in relation to LECL's ECE licences in response to the transaction to be low, however, MoE does retain a discretion with respect to the licence changes.	<ul style="list-style-type: none">• LECL will continue to have the benefit of the licences until such time as the MOE completes its approval process.• Anchorage have successfully owned and operated ECE centres in Australia previously.• Anchorage have an experienced management team and board ready to be put in place.
Change of control consents for centre leases	Approval from the landlord for change of control for specific leases is required. Evolve considers there is a high likelihood such consent will be obtained.	<ul style="list-style-type: none">• There should be sufficient time between signing and the target completion date to obtain change of control consents.• This process will now commence.
Release of bond security being approved by the security trustee	A security release deed and resignation letter countersigned by the security trustee is required.	<ul style="list-style-type: none">• This process will now commence.

Disclaimer

The information in this presentation is an overview and does not contain all information necessary to make an investment decision. It is intended to constitute a summary of certain information relating to Evolve Education Group Limited ("Evolve Education").

Please refer to the audited financial statements for the period ended 31 December 2021 for further detail on Evolve Education's results for that period, released on 28 February 2022 .

The information in this presentation does not purport to be a complete description of Evolve Education. In making an investment decision, investors must rely on their own examination of Evolve Education, including the merits and risks involved. Investors should consult with their own legal, tax, business and/or financial advisors in connection with any acquisition of financial products.

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