

21 NOVEMBER 2016

Evolve increases dividend on strong profit growth

Evolve Education Group Limited ("Evolve") has delivered a strong result in the half year ended 30 September 2016 with revenue of \$76.4m (an increase of 9% over the equivalent period last year, of \$70.2m) and Profit before income tax of \$12.5m, (an increase of 11% over the equivalent period last year, of \$11.3m).

As at 30 September 2016, the company's portfolio numbered 110 Early Childhood Education ("ECE") centres. The ECE centres produced revenue of \$63.1m (2015, \$56.1m) and underlying EBITDA¹ of \$16.7m in the six months ended 30 September 2016 (2015 \$14.9m).

"A combination of improved operational performance with the ongoing business development programme were key features of the half year performance" said CEO Alan Wham.

"Parental and community support remains strong, with centre occupancy, on a like for like basis, consistent at 85% for the half year. This strong outcome is a reflection of the quality of ECE, commitment of our teaching and learning team as well as the supporting resources a Group can provide."

Evolve contracted five new ECE centres in the six months ended 30 September 2016 and has contracted a further eight since that date. Whilst the half year results include an element of these acquisitions, the majority of the increase in earnings will be reported over the coming 12 months.

Chair Norah Barlow said, "The Evolve Group continues its commitment to high quality education outcomes that underpins our position as a leader in the provision of Early Childhood Education. Further growth through development and carefully selected acquisitions will strengthen the Group's operating & financial position."

Dividend details

The directors of Evolve have resolved to pay a fully imputed dividend of 2.50 cents per share (compared to 2.38 cents per share for the equivalent period last year).

END

For any further inquiries please contact:

Alan Wham

Chief Executive

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¹ EBITDA is defined as earnings before interest, tax, depreciation, amortisation and adjusted for acquisition and integration costs. EBITDA is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS. This measure is intended to supplement the NZ GAAP measures presented in Evolve Group financial statements, should not be considered in isolation and is not a substitute for those measures.

Evolve is a New Zealand operated provider of high quality multi-faceted ECE services. Evolve offers both centre-based and home-based ECE, operating under various brands including Lollipops Educare, Leaps and Bounds, Porse and Au Pair Link. Evolve listed on the NZX and ASX on 5 December 2014. Its portfolio currently includes 119 ECE centres and two home-based businesses.

Attachments

1. NZX Narrative
2. NZX Appendix 1
3. Evolve Education Group Limited Interim Financial Statements for the six month period ended 30 September 2016
4. NZX Appendix 7
5. Results Presentation

NZX APPENDIX 1

EVOLVE EDUCATION GROUP LIMITED		
Unaudited results for announcement to the market		
Reporting Period	Six months to 30 September 2016	
Previous Reporting Period	Six months to 30 September 2015	
	Amount (NZ\$'000s)	Percentage Change
Revenue from ordinary activities	\$76,368	9.0%
Profit (Loss) from ordinary activities after tax attributable to security holders	\$8,837	4.8%
Net profit (loss) attributable to the security holders	\$8,837	4.8%
Interim/Final Dividend	Amount per Security (NZ\$)	Imputed Amount per Security (NZ\$)
Interim Dividend	\$0.0250	\$0.0097
Record Date	6-Dec-16	
Dividend Payment Date	21-Dec-16	
The company's dividend reinvestment plan will be in effect with participation notices due to be received by 5:00pm 7 December 2016		
	30-Sep-16	Previous Corresponding Period
Net tangible assets per security (NZ\$)	(0.18)	(0.15)
Due to the nature of the Company's business, intangible assets are a major component of total assets. Accordingly the net assets per security is considered as a more useful measure and at 30 September 2016 it was NZ\$0.93 (2015: NZ\$0.89)		
Details of entities over which control has been gained or lost during the period	Not applicable	
Details of associates and joint venture entities	Please refer notes 1 and 11 to Evolve Group's unaudited consolidated financial statements attached.	
Comments	Refer interim report, results presentation and media release attached.	
Dividends during year	Amount per Security (NZ\$)	Imputed Amount per Security (NZ\$)
Interim dividend - cents per share	\$0.0238	\$0.0093
	Supplementary dividend per security (NZ\$)	Date paid
	\$0.0042	18-Dec-15
Final dividend - cents per share	Amount per Security (NZ\$)	Imputed Amount per Security (NZ\$)
	\$0.0238	\$0.0093
	Supplementary dividend per security (NZ\$)	Date paid
	\$0.0042	20-Jun-16

Evolve Education Group Limited
Interim Financial Statements
For the Six Month Period Ended 30 September 2016

The Directors have pleasure in presenting the Interim Financial Statements of Evolve Education Group Limited, for the six month period ended 30 September 2016.

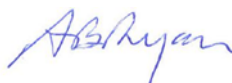
The Interim Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 21 November 2016.



Norah Barlow

Chair

21 November 2016



Alistair Ryan

Director

21 November 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2016

		UNAUDITED 6 MONTHS 30 SEPTEMBER 2016	UNAUDITED 6 MONTHS 30 SEPTEMBER 2015
\$'000	Note		
Revenue	2	76,368	69,799
Other income	2	-	294
Share of profit of equity accounted joint venture		-	122
Total income		76,368	70,215
Expenses			
Employee benefits expense		(41,217)	(37,910)
Building occupancy expenses		(9,727)	(8,512)
Direct expenses of providing services		(8,039)	(7,826)
Acquisition expenses		(451)	(723)
Integration expenses		(328)	(205)
Depreciation		(1,004)	(779)
Amortisation	4	(300)	(222)
Other expenses		(2,240)	(2,204)
Total expenses		(63,306)	(58,381)
Profit before net finance expense and income tax		13,062	11,834
Finance income		52	102
Finance costs		(599)	(668)
Net finance expense		(547)	(566)
Profit before income tax		12,515	11,268
Income tax expense		(3,678)	(2,833)
Profit after income tax attributed to the owners of the Company		8,837	8,435
Other comprehensive income		-	-
Total comprehensive income attributed to the owners of the Company		8,837	8,435
Earnings per share			
Basic (and diluted) earnings per share (expressed as cents per share)		5.0	4.8

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2016

	ISSUED SHARE CAPITAL	RETAINED EARNINGS	TOTAL
\$'000			
Balance at 31 March 2015 (audited)	156,926	(8,058)	148,868
Profit for the period (unaudited)	-	8,435	8,435
Other comprehensive income for the period (unaudited)	-	-	-
Total comprehensive income (unaudited)	-	8,435	8,435
Balance as at 30 September 2015 (unaudited)	156,926	377	157,303
Balance at 31 March 2016 (audited)	157,364	3,369	160,733
Profit for the period (unaudited)	-	8,837	8,837
Other comprehensive income for the period (unaudited)	-	-	-
Total comprehensive income (unaudited)	-	8,837	8,837
Shares issued under Dividend Re-investment Plan	428	-	428
Share issue costs relating to shares issued	(7)	-	(7)
Dividends paid	-	(4,226)	(4,226)
Balance as at 30 September 2016 (unaudited)	157,785	7,980	165,765

The above Consolidated Statement of Movements in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2016

		UNAUDITED AS AT 30 SEPTEMBER 2016	AUDITED AS AT 31 MARCH 2016	UNAUDITED AS AT 30 SEPTEMBER 2015
\$'000	Note			
Current assets				
Cash and cash equivalents		3,085	38,624	2,717
Assets held for sale (investment in equity accounted joint venture)	11	-	1,605	-
Funding receivable	6	1,279	-	-
Other current assets		2,204	1,313	1,826
Total current assets		6,568	41,542	4,543
Non-current assets				
Property, plant and equipment		5,879	5,502	5,785
Investment in equity accounted joint venture	11	-	-	1,584
Deferred tax asset		840	786	826
Intangible assets	4	197,606	190,857	182,205
Total non-current assets		204,325	197,145	190,400
Total assets		210,893	238,687	194,943
Current liabilities				
Trade and other payables	5	5,099	8,413	5,060
Current income tax liabilities		556	1,286	1,101
Funding received in advance	6	-	16,318	112
Employee entitlements		6,273	6,072	5,942
Total current liabilities		11,928	32,089	12,215
Non-current liabilities				
Borrowings	7	33,200	45,865	25,425
Total non-current liabilities		33,200	45,865	25,425
Total liabilities		45,128	77,954	37,640
Net assets		165,765	160,733	157,303
Equity				
Issued share capital		157,785	157,364	156,926
Retained earnings		7,980	3,369	377
Total equity		165,765	160,733	157,303

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2016

		UNAUDITED 6 MONTHS 30 SEPTEMBER 2016	UNAUDITED 6 MONTHS 30 SEPTEMBER 2015
\$'000	Note		
Cash flows from operating activities			
Receipts from customers (including Ministry of Education funding)		58,320	52,966
Dividends received		76	59
Payments to suppliers and employees		(65,755)	(61,372)
Taxes paid		(4,508)	(2,782)
Net cash flows from operating activities	8	(11,867)	(11,129)
Cash flows from investing activities			
Payments for purchase of businesses	3	(6,983)	(14,713)
Proceeds from sale of investment in equity accounted joint venture	11	1,550	-
Payments for property, plant and equipment		(1,269)	(1,151)
Interest received		52	102
Net cash flows from investing activities		(6,650)	(15,762)
Cash flows from financing activities			
Share issue costs		(7)	-
Interest paid on borrowings		(599)	(427)
Bank borrowings drawn		163,840	45,425
Bank borrowings repaid		(176,505)	(20,000)
Dividends paid		(3,751)	-
Net cash flows from financing activities		(17,022)	24,998
Net cash flows		(35,539)	(1,893)
Cash and cash equivalents at beginning of period		38,624	4,610
Cash and cash equivalents at end of period		3,085	2,717

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2016

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The principal activities of Evolve Education Group Limited (the “Company”) and its subsidiaries (the “Group”) are the investment in the provision and management of high quality early childhood education services which give parents and caregivers the option of which service best suits their child’s learning and care needs (see Note 2, Segment Information). The Group operates within New Zealand. During the period the Group acquired a number of additional early childhood education centres, as disclosed in Note 3, as part of its strategy to form centrally managed early childhood education services.

The Company is incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and listed on the NZX Main Board and the Australian Stock Exchange (“ASX”). The Company is a FMC Reporting Entity in terms of Part 7 of the Financial Markets Conduct Act 2013. The registered office is located at Level 2, 54 Fort Street, Auckland, New Zealand.

These condensed interim financial statements were approved for issue on 21 November 2016.

The condensed interim financial statements of the Group have been prepared in accordance with the requirements of the NZX and ASX Listing Rules, New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and New Zealand Generally Accepted Accounting Practice (“NZ GAAP”). The interim financial statements are for the Evolve Education Group Limited Group. The Group financial statements comprise the Company and its subsidiaries, including its investments in joint arrangements. The Group is a profit-oriented entity for financial reporting purposes.

These consolidated condensed interim financial statements of the Group are unaudited and have been prepared using the same accounting policies, methods of computation, significant judgements, estimates and assumptions, as the financial statements and related notes included in the Group’s audited financial statements for the year ended 31 March 2016. Accordingly, these interim financial statements are to be read in conjunction with those audited financial statements.

Certain comparatives have been reclassified to ensure consistency with the current period. These half year financial statements do not include all the notes of the type normally included in an annual financial report.

Going Concern

The financial statements have been prepared on a going concern basis.

Functional and Presentation Currency

These financial statements are presented in New Zealand Dollars (\$) which is the Group’s presentation currency. Unless otherwise stated, financial information has been rounded to the nearest thousand dollars (\$’000).

Comparative Period

The comparative period is for the six months ended 30 September 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2016

2. SEGMENT INFORMATION

The Group has two reportable operating segments, as described below, which were identified as the strategic business-models the Group would initially invest in within the wider teacher-led early childhood education (“ECE”) industry in New Zealand. The Group operates entirely within New Zealand. Each segment is managed separately. For each of the segments, the Group’s Chief Executive Officer (“CEO” and the “Chief Operating Decision Maker”) reviews internal management reports at least on a monthly basis. The following summary describes the operations in each of the Group’s reportable segments:

ECE Centres – generally purpose built facilities that offer all day or part-day early childhood services, and
Home-based ECE – involves an educator providing services to a small group of children in a home setting and is supported by a registered teacher coordinator who oversees the children’s learning progress.

Other operations include ECE Management, a non-reportable segment, whereby the Group provides management and back-office expertise to ECE centres but it does not own the centre. This activity does not meet any of the quantitative thresholds for determining reportable segments and as such it has been included as an unallocated amount. Unallocated amounts also represent other corporate support services, acquisition and integration costs.

Information regarding the results of each reportable segment is included below. Performance is measured based on NZ GAAP measures of profitability and in relation to the Group’s segments, segment profit before income tax. In addition to GAAP measures of profitability, the Group also monitors its profitability using non-GAAP financial measures (that is, earnings before interest, tax, depreciation and amortisation (“EBITDA”)) and EBITDA excluding certain items, as described below and as included in the internal management reports that are reviewed by the Group’s CEO. EBITDA is not defined by NZ GAAP, IFRS or any other body of accounting standards and the Groups’ calculation of this measure may differ from similarly titled measures presented by other companies. This measure is intended to supplement the NZ GAAP measures presented in the Group’s financial information.

EBITDA excluding acquisition and integration costs reflects a number of adjustments that may be defined as:

- **Acquisition expenses** – in acquiring the businesses and net assets in Note 3 the Group incurred certain expenses directly related to those acquisitions including agents’ commissions, legal fees, financing fees and financial, tax and operational due diligence fees.
- **Integration expenses** – costs associated with the integration of the businesses acquired including the employment costs of the Group’s acquisition and integration team and third party costs of establishing for example, IT and communications with the Group and the transfer of employment/payroll records to the Group’s payroll provider.

Other than the items noted above, EBITDA includes increases or decreases to amounts provided for contingent consideration (in respect of the prior year comparatives).

The Group’s corporate and management costs include certain financing income and expenditure and taxation that are managed on a Group basis and are not allocated to operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2016

2. SEGMENT INFORMATION (continued)

Unaudited 30 September 2016	ECE Centres \$'000	Home-based ECE \$'000	Unallocated \$'000	Consolidated \$'000
Total revenue	63,149	12,727	492	76,368
Operating expenses	(46,413)	(11,272)	(3,538)	(61,223)
EBITDA before acquisition and integration expenses	16,736	1,455	(3,046)	15,145
Acquisition expenses	-	-	(451)	(451)
Integration expenses	-	-	(328)	(328)
EBITDA	16,736	1,455	(3,825)	14,366
Depreciation	(791)	(182)	(31)	(1,004)
Amortisation	(76)	(122)	(102)	(300)
Earnings before interest and tax	15,869	1,151	(3,958)	13,062
Net finance expense	-	-	(547)	(547)
Reportable segment profit/(loss) before tax	15,869	1,151	(4,505)	12,515

Unaudited 30 September 2015	ECE Centres \$'000	Home-based ECE \$'000	Unallocated \$'000	Consolidated \$'000
Total revenue	56,085	13,143	571	69,799
Other income	-	-	294	294
Share of profit of equity accounted joint venture	122	-	-	122
Operating expenses	(41,322)	(11,628)	(3,502)	(56,452)
EBITDA before acquisition and integration expenses	14,885	1,515	(2,637)	13,763
Acquisition expenses	-	-	(723)	(723)
Integration expenses	-	-	(205)	(205)
EBITDA	14,885	1,515	(3,565)	12,835
Depreciation	(526)	(226)	(27)	(779)
Amortisation	(30)	(99)	(93)	(222)
Earnings before interest and tax	14,329	1,190	(3,685)	11,834
Net finance expense	-	-	(566)	(566)
Reportable segment profit/(loss) before tax	14,329	1,190	(4,251)	11,268

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2016

3. BUSINESS COMBINATIONS

Centre Acquisitions

During the six months ended 30 September 2016 the Group acquired 5 centres from several separate vendors, for a combined purchase price of \$7.2m payable in cash. Total net assets acquired were \$38,000 resulting in goodwill on acquisition of \$7.1m. Total acquisition costs incurred during the period were \$451,000 and these are included in the Statement of Comprehensive Income and cash flows from operating activities in the Statement of Cash Flows. No cash was acquired.

Assets and liabilities acquired and consideration paid	\$'000
Assets	
Other current assets	43
Property, plant and equipment	215
	258
Liabilities	
Funding received in advance	(212)
Employee entitlements	-
Other current liabilities	(8)
	(220)
Total identifiable net assets at fair value	38
Goodwill arising on acquisition	7,125
Purchase consideration transferred	7,163
Purchase consideration	
Cash paid	6,983
Cash payable relating to retentions	180
Total consideration	7,163

The goodwill of \$7.1m predominantly comprises the future earnings potential of the acquired ECE centres and the value expected from continuing to bring together a group of ECE centres and home-based ECE providers under one centrally managed group. Goodwill is allocated to each of the segments identified at Note 2, as appropriate.

Year to date the acquisitions have contributed revenue of \$1.4m and a net profit after tax of \$45,000 to the Group's results before allowing for upfront acquisition expenses and integration costs. As the acquisitions were made at different times during the six month period it is anticipated these acquisitions would have contributed revenue of \$2.9m and a net profit after tax of \$335,000 (excluding upfront and non-recurring acquisition costs of \$451,000 and integration expenses of \$328,000) had they all been acquired on 1 April 2016 and operated for the full six month period covered by these interim financial statements.

4. INTANGIBLE ASSETS

	UNAUDITED 30 SEPTEMBER 2016	AUDITED 31 MARCH 2016	UNAUDITED 30 SEPTEMBER 2015
\$'000			
Goodwill	191,472	184,346	175,891
Brands	4,787	4,787	4,787
Other	1,347	1,724	1,527
Total Intangible assets (net book value)	197,606	190,857	182,205

Intangible assets comprise goodwill, brands, customer lists, software, syllabus material and management contracts. The total cost of intangible assets has increased by \$7.2m during the period. This is mainly due to the acquisitions detailed in Note 3 which have resulted in additional goodwill of \$7.1m. The remaining change in the net book value of intangible assets is due to software additions less amortisation for the six month period ended 30 September 2016 of \$300,000 (30 September 2015: \$222,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2016

5. TRADE AND OTHER PAYABLES

	UNAUDITED 30 SEPTEMBER 2016	AUDITED 31 MARCH 2016	UNAUDITED 30 SEPTEMBER 2015
\$'000			
Trade payables	1,054	838	1,135
Amounts accrued in respect of contingent consideration	-	-	1,012
Amounts accrued in respect of business combinations	180	115	-
Goods and services tax	98	4,652	-
Other payables	3,767	2,808	2,913
Total trade and other payables	5,099	8,413	5,060

The timing of Ministry of Education funding, as disclosed at Note 6, affects the timing of goods and services tax ("GST") payable. GST on funding received in March remains payable at the end of March, whereas no GST on funding is payable at September as the GST relating to July funding is paid in August. The next funding round is November.

6. FUNDING RECEIVABLE AND FUNDING RECEIVED IN ADVANCE

	UNAUDITED 30 SEPTEMBER 2016	AUDITED 31 MARCH 2016	UNAUDITED 30 SEPTEMBER 2015
\$'000			
Funding received in advance	(7,000)	(20,216)	(7,256)
Funding receivable	8,279	3,898	7,144
Total funding receivable/(received in advance)	1,279	(16,318)	(112)

Ministry of Education funding is received three times per year on 1 March, 1 July and 1 November. Each funding round includes 75% of the estimated funding for the four months ahead. At 30 September 2016 funding received in advance relates to October 2016. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of June to September 2016.

7. BORROWINGS

The Group's financing arrangements comprise the bank facilities summarised below. The facilities are secured by way of a first ranking general security agreement over all present and future shares and assets and undertakings of the Group, together with an all obligations cross guarantee and indemnity. The Group was in compliance with all bank covenants during the period.

	UNAUDITED 30 SEPTEMBER 2016	AUDITED 31 MARCH 2016	UNAUDITED 30 SEPTEMBER 2015
\$'000			
Facility Limits			
Senior revolving facility	30,000	30,000	30,000
Acquisition facility	60,000	60,000	60,000
Total lending facilities	90,000	90,000	90,000
Utilisation			
Senior revolving facility	-	20,000	8,800
Acquisition facility	33,200	25,865	16,625
Total borrowings	33,200	45,865	25,425
Total unused facilities	56,800	44,135	64,575

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2016

8. RECONCILIATION OF PROFIT AFTER TAX TO NET OPERATING CASH FLOWS

	UNAUDITED 6 MONTHS 30 SEPTEMBER 2016	UNAUDITED 6 MONTHS 30 SEPTEMBER 2015
\$'000		
Profit after tax	8,837	8,435
Adjustments for:		
Depreciation and amortisation	1,304	1,001
Contingent consideration adjustments	-	(294)
Net finance expense	547	412
Deferred tax	(54)	(376)
Share of profits in joint venture	-	(63)
Other	9	(91)
Changes in operating assets and liabilities:		
<i>Working capital movements:</i>		
Increase/(decrease) in funding received in advance	(17,810)	(16,188)
(Increase)/decrease in other current assets	(891)	(739)
Increase/(decrease) in trade and other payables	(3,280)	(6,043)
Increase/(decrease) in current income tax liabilities	(730)	427
Increase/(decrease) in employee entitlements	201	827
<i>Other items:</i>		
Business combination completion payment classified as investing	-	937
Change in contingent consideration provided classified as investing	-	626
Net cash flows from operating activities	(11,867)	(11,129)

As per Note 6, Ministry of Education ("MOE") funding is received by Evolve every four months. In the six months to 30 September MOE funding was received on 1 July only, with the next funding due on 1 November and then again on 1 March.

9. COMMITMENTS AND CONTINGENCIES

Guarantees

In addition to the lending facilities disclosed at Note 7, the Group has a lease guarantee facility of \$3,000,000 at 30 September 2016 (31 March 2016: \$3,000,000; 30 September 2015: \$3,000,000). At the reporting date utilisation of the facility was \$2,395,000 (31 March 2016: \$2,363,000; 30 September 2015 \$2,363,000).

Taxation

Porse In-home Childcare (NZ) Limited ("PIHCL"), a wholly owned subsidiary of the Company, is in discussion with the Inland Revenue Department ("IRD") on the GST status of home-based care delivery, as are other operators in the home-based ECE sector. The IRD has challenged PIHCL's treatment in respect of payments made to home-based educators and nannies. PIHCL, based on its own view, supported by expert legal and tax advice, remains confident that its treatment of GST in respect of home-based educators and nannies is correct. PIHCL will continue to engage with the IRD to understand the basis of its position in an endeavour to achieve a satisfactory resolution of this matter.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2016

9. COMMITMENTS AND CONTINGENCIES (continued)

The assessment of the carrying value of home-based ECE intangible assets has been undertaken on this basis and the continuing application of the current GST treatment is a key assumption and judgement in determining the value in use of the home-based ECE cash generating unit.

10. RELATED PARTY TRANSACTIONS

Parent entity

Evolve Education Group Limited is the parent entity.

Identity of Related Parties

Related parties of the Group are:

- The Board of Directors comprising Norah Barlow, Alistair Ryan, Mark Finlay, Greg Kern and Alan Wham.
- Certain senior executives of the Group, including Alan Wham as Chief Executive Officer.
- Kern Group (Paddington) Pty Limited and Kern Group NZ Limited, companies associated with Greg Kern.
- LEP Limited, LEDC Limited (the vendor of 5 development centres acquired by the Company in March 2016), LEP Construction Limited, Birkenhead Properties Limited, LEP1 Limited, LEDC1 Limited and Wildfire Limited, companies associated with Mark Finlay.
- Wraith Capital Group NZ Limited, one of the Company's shareholders.

Related party transactions and related party relationships that have ended

The following related party transactions and relationships ended prior to 1 April 2016:

- Acquisition related costs paid to Kern Group (30 September 2015: \$211,000). Greg Kern continues to be related, however, through his directorship of the Company.
- Acquisition related costs paid to Wraith Capital Group NZ Limited (30 September 2015: \$221,000).
- Payments for consultancy services made to Mark Finlay (30 September 2015: \$40,000). Mark Finlay continues to be a related party, however, through his directorship of the Company.
- Rents paid to interests of Jenny Yule, former Chief Executive Officer of the Porse group (30 September 2015: \$161,000). Jenny Yule ceased to be a related party on 31 December 2015.

Related party transactions arising during the period:

In addition to salaries paid to certain key personnel of the Group the following related party transactions occurred between 1 April 2016 and 30 September 2016:

- Directors' fees paid of \$195,833 (30 September 2015: \$192,500).
- Shares issued pursuant to the Company's dividend reinvestment plan to Alan Wham (13,837 shares valued at \$12,453), Alistair Ryan and Norah Barlow (2,013 shares each valued at \$1,812 each), Vivek Singh (7,548 shares valued at \$6,793) and Greg Kern (285 shares valued at \$257). No shares were issued in the corresponding prior period.
- Rent, in respect of six ECE centres and the support office, paid to interests of Mark Finlay of \$578,000 (30 September 2015: \$395,000 relating to 4 ECE centres and the support office).
- Management fee income derived from centres related to Mark Finlay \$43,000 (30 September 2015: \$59,000).

11. EQUITY ACCOUNTED JOINT VENTURE

During the period the Group sold its 50% investment in the Halfmoon Bay joint venture for \$1.6m. The sale realised a \$24,000 gain and this is recorded within the Statement of Financial Performance.

The effect on the Group is the loss of equity accounted earnings of approximately \$200,000 per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2016

12. EVENTS AFTER THE REPORTING PERIOD

Dividend

On 21 November 2016, the Board approved the payment of a fully imputed dividend of 2.50 cents per share, payable in December 2016. The Company's dividend reinvestment plan will be in effect.

Centre Acquisitions

Subsequent to 30 September 2016 the Group acquired a further 8 ECE centres for consideration of \$12.5m net of purchase price adjustments. The acquisitions are a continuation of the Group's strategy to form a nationwide group of centrally-owned and managed ECE providers. The goodwill acquired comprises the value of expected synergies arising from the acquisitions including those that occurred during the period.

A summary of the provisional net assets acquired is below. Acquisition costs of approximately \$0.4m were incurred.

	\$'000
Assets	
Other current assets	16
Funding receivable	218
Property, plant and equipment	294
Deferred tax	116
	644
Liabilities	
Other current liabilities	(42)
	(42)
Total identifiable net assets at fair value	602
Goodwill arising on acquisition	11,882
Purchase consideration transferred	12,484
Purchase consideration	
Cash	12,384
Cash payable related to retentions	100
Total consideration	12,484

It is anticipated these acquisitions would have contributed revenue of \$5.7m and a net profit after tax of \$581,000 had they all been acquired on 1 April 2016 and operated for the full six month period covered by these interim financial statements.

In addition to the above the Group has entered into agreements for the acquisition of a further three ECE centres for \$3.2m total consideration. At the date of signing these financial statements the agreements are conditional.

Development centres

On 31 October 2016 the Company opened its first development centre, Moreporks Pegasus, in Christchurch.



Independent Review Report

to the shareholders of Evolve Education Group Limited

Report on the Interim Financial Statements

We have reviewed the accompanying consolidated interim financial statements of Evolve Education Group Limited (the Company) on pages 1 to 13, which comprise the consolidated statement of financial position as at 30 September 2016, and the consolidated statement of comprehensive income, the consolidated statement of movements in equity and the consolidated statement of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Company. Our firm carries out other services for the Company in the areas of other audit related assurance and non-assurance services, tax and executive remuneration advisory services. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Company are not prepared, in all material respects, in accordance with NZ IAS 34.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

A handwritten signature in blue ink, reading 'PricewaterhouseCoopers'.

Chartered Accountants
21 November 2016

Auckland

Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one
(Please provide any other relevant
details on additional pages)

1

Full name of Issuer EVOLVE EDUCATION GROUP LIMITED											
Name of officer authorised to make this notice Stephen Davies	Authority for event, e.g. Directors' resolution Board resolution of 21 November 2016										
Contact phone number +64 27 2691525	Contact fax number 										
Date 21 / 11 / 2016											
Nature of event Tick as appropriate: <table border="0"> <tr> <td>Bonus Issue <input type="checkbox"/></td> <td>If ticked, state whether: Taxable <input type="checkbox"/> / Non Taxable <input type="checkbox"/></td> <td>Conversion <input type="checkbox"/></td> <td>Interest <input type="checkbox"/></td> <td>Rights Issue Renounceable <input type="checkbox"/></td> </tr> <tr> <td>Rights Issue non-renounceable <input type="checkbox"/></td> <td>Capital change <input type="checkbox"/> Call <input type="checkbox"/> Dividend <input checked="" type="checkbox"/></td> <td>If ticked, state whether: Interim <input checked="" type="checkbox"/> Full Year <input type="checkbox"/></td> <td>Special <input type="checkbox"/></td> <td>DRP Applies <input checked="" type="checkbox"/></td> </tr> </table>		Bonus Issue <input type="checkbox"/>	If ticked, state whether: Taxable <input type="checkbox"/> / Non Taxable <input type="checkbox"/>	Conversion <input type="checkbox"/>	Interest <input type="checkbox"/>	Rights Issue Renounceable <input type="checkbox"/>	Rights Issue non-renounceable <input type="checkbox"/>	Capital change <input type="checkbox"/> Call <input type="checkbox"/> Dividend <input checked="" type="checkbox"/>	If ticked, state whether: Interim <input checked="" type="checkbox"/> Full Year <input type="checkbox"/>	Special <input type="checkbox"/>	DRP Applies <input checked="" type="checkbox"/>
Bonus Issue <input type="checkbox"/>	If ticked, state whether: Taxable <input type="checkbox"/> / Non Taxable <input type="checkbox"/>	Conversion <input type="checkbox"/>	Interest <input type="checkbox"/>	Rights Issue Renounceable <input type="checkbox"/>							
Rights Issue non-renounceable <input type="checkbox"/>	Capital change <input type="checkbox"/> Call <input type="checkbox"/> Dividend <input checked="" type="checkbox"/>	If ticked, state whether: Interim <input checked="" type="checkbox"/> Full Year <input type="checkbox"/>	Special <input type="checkbox"/>	DRP Applies <input checked="" type="checkbox"/>							

EXISTING securities affected by this

If more than one security is affected by the event, use a separate form.

Description of the class of securities Ordinary Shares	ISIN NZEVOE0001S4 <i>If unknown, contact NZX</i>
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Details of securities issued pursuant to this event

If more than one class of security is to be issued, use a separate form for each class.

Description of the class of securities Ordinary Shares	ISIN NZEVOE0001S4 <i>If unknown, contact NZX</i>
Number of Securities to be issued following event 	Minimum Entitlement
Conversion, Maturity, Call Payable or Exercise Date 	Treatment of Fractions Round to nearest whole number
Strike price per security for any issue in lieu or date Strike Price available. 	OR provide an explanation of the ranking

Monies Associated with Event

Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.

In dollars and cents		Source of Payment Retained earnings
Amount per security (does not include any excluded income) \$0.0250		
Excluded income per security (only applicable to listed PIEs) 		
Currency NZD	Supplementary dividend details - NZSX Listing Rule 7.12.7	Amount per security in dollars and cents \$0.004411
Total monies \$0.0250		Date Payable 21 December 2016

Taxation

Amount per Security in Dollars and cents to six decimal places

In the case of a taxable bonus issue state strike price \$	Resident Withholding Tax \$0.001736	Imputation Credits (Give details) \$0.009722
	Foreign Withholding Tax \$	FWP Credits (Give details)

Timing

(Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm

For calculation of entitlements -

6 December, 2016**Application Date**

Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week.

21 December 2016**Notice Date**

Entitlement letters, call notices, conversion notices mailed

Allotment Date

For the issue of new securities. Must be within 5 business days of application closing date.

21 December 2016**OFFICE USE ONLY**

Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:

Security Code:



EVOLVE EDUCATION GROUP LIMITED

HALF YEAR RESULTS TO 30 SEPTEMBER 2016

INVESTOR PRESENTATION



Agenda

1. Highlights / Overview
2. Centre Metrics
3. Central Office costs

Appendices

- A. Reconciliation of Non-GAAP Financial Information
- B. Results vs Normalised H1 FY 16
- C. Balance Sheet/Cashflow

H1 FY17 Highlights



- Continuation of centre expansion programme, primarily through selective acquisition – 5 centres acquired in half year, 8 centres settled since. On track for target to add 15-20 centres in FY 17.
- First Development Centre opened 31 October 2016. 119 Centres in total as at today (slide 9).
- Revenues up 9%, primarily as a result of the expansion programme. Flows to underlying EBITDA, up 10% (slide 4).
- Centres running well – improvement in operational focus drove margin improvement in the original portfolio of 84 centres, underlying EBITDA up 4% (\$528k) on steady revenues.
- Centre Management costs well contained (slide 8).
- Funding in place for FY 18 growth - \$14.5m of acquisition facility remains un-utilised as at today.
- Interim dividend of 2.50c per share, fully imputed (5% increase).

Financial Result



\$000	H1 FY 17 Actual	H1 FY 16 Actual	Increase %
Revenue	76,368	70,215	9%
EBITDA* (underlying)	15,145	13,763	10%
Statutory Profit Before Tax	12,515	11,268	11%
Statutory Net Profit After Tax	8,837	8,435	5%
Basic (and diluted) earnings per share (CPS)	5.00	4.80	4%
Fully imputed interim dividend (CPS)	2.50	2.38	5%

* EBITDA is defined as earnings before interest, tax, depreciation, amortisation and adjusted for acquisition and integration costs. EBITDA is a non-GAAP measure and is not prepared in accordance with NZ IFRS. This measure is intended to supplement NZ GAAP measures presented in Evolve Group financial statements, should not be considered in isolation and are not a substitute for those measures.

EBITDA (underlying) above excludes acquisition costs of \$451K (FY16: \$723K) and integration costs of \$328k (FY16 \$205k), for centres acquired during the 6 month period, which are expensed for accounting purposes. These represent one-off up-front costs incurred to secure future income streams for the business.

Refer Appendix A for a reconciliation of non-GAAP financial information.

Segment Results

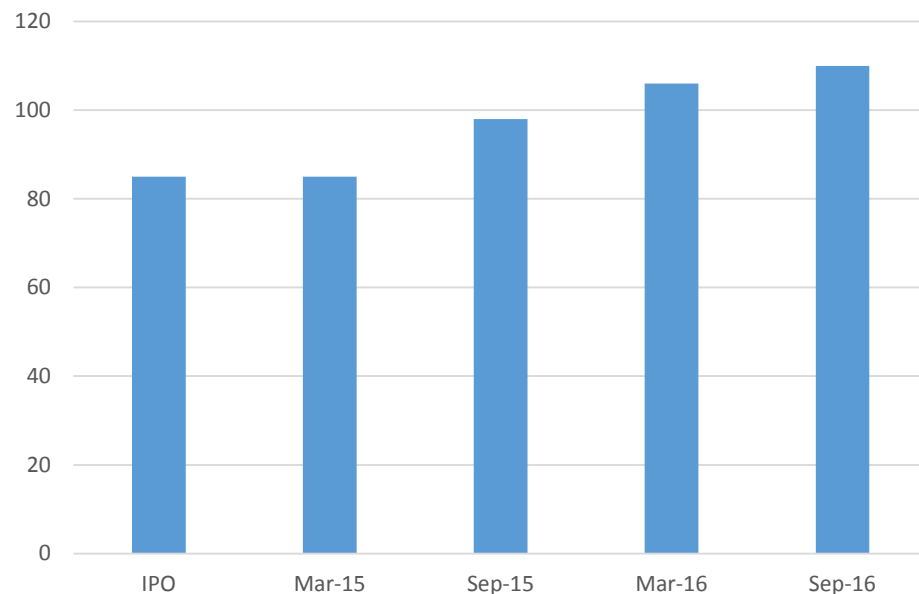
\$000	H1 FY 17 Actual	H1 FY 16 Actual	Increase %
Revenue			
ECE Centres	63,149	56,207	12%
Home-based ECE	12,727	13,143	(3)%
Other Income ¹	492	865	(43)%
TOTAL INCOME	76,368	70,215	9%
EBITDA (underlying)			
ECE Centres	16,736	14,885	12%
Home-based ECE	1,455	1,515	(4)%
Corporate and other costs less other income ¹	(3,046)	(2,637)	(15)%
EBITDA (underlying)	15,145	13,763	10%

- Home-based ECE – child numbers are largely static. Revenue decline is due to lower sundry income from arranging au pair flights, entry placement fees etc.
- Corporate and other costs – costs well contained (slide 8), EBITDA decline primarily due to revenue change noted below.
- Margins held overall.

¹ (H1 FY16 includes earn-out provision reversal of \$294k, nil H1 FY 17. Excluding this non recurring item Corporate costs increased by 4%).

Centre Portfolio

Centre Portfolio



- 5 centres acquired H1 FY 17
- Licensed places increased from 7,162 to 7,545 (+5% from 1 April 2016), at 30 September 2016
- Total consideration paid for acquisitions in H1 FY 17 of \$7m.
- Subsequent to period end a further 668 licensed places added in acquisition of 8 centres.
- A further 2 centres (121 licensed places) conditionally contracted to settle by 31 March 2017.
- All acquisitions debt funded.
- Vendor expectations are elevated, acquisitions are carefully selected for quality and opportunity.

Centre Metrics

H1 FY17	Base 84	FY 16 Acquisitions	FY 17 Acquisitions	Total H1 FY 17	Total H1 FY 16
Centres	84	21	5	110	98
ECE Licensed Places	5,870	1,293	383	7,545	6,665
Occupancy	85%	79%	68%	83%	85%
Employee expenses/revenue	50.3%	52.1%	52.2%	50.6%	51.2%
EBITDA Margin %	27.1%	23.9%	21.3%	26.5%	26.5%

- Average purchase price EBITDA multiple expectation up approx. 1x from those of FY16, (multiples calculated on budgeted first year under Evolve operation), to approx. 6x.
- With Vendor price expectations elevated FY 17 acquisition strategy has focussed on quality centres with opportunity for occupancy improvement. Total centre metrics are diluted by the impact of these acquisitions.
- Occupancy of Base 84 centres increased from 84% to 85%, relative to prior interim period.
- FY 16 acquisitions have performed in line with expectations at the time of acquisition, with the exception of three centres in Hawkes Bay that have seen occupancy decline.
- Integration of acquired centres is now managed by an experienced operational team under the supervision of the COO.

Central Office costs



	H1 FY 17 Actual	H1 FY 16 Actual	Change %
Average number of centre licensed places	7,396	6,489	14%
Central office costs per licensed place – interim	\$403	\$463	(13%)
Central office costs per licensed place – annualised	\$806	\$926	(13%)

Central office costs represent the unallocated costs of managing the centre portfolio.

Central office costs well contained vs H1 FY 16, in part due to temporary staff vacancies following enhancements made to the Leadership team.

Developments

- Lead time of 6 – 18 months from contracting to commencement of trading. Target 80% occupancy within two years of trading.
- Nil developments trading as at 30 September 2016.
- 1 development started trading on 31 October 2016, 65 licensed place Moreporks in Canterbury. Centre managed by a highly experienced Manager of our existing local centre. Educational focus for the centre is on learning through play with an emphasis on natural science, technology and design.
- 2 developments contracted and expected to commence trading during FY18, 154 licensed places.
- Further new centre opportunities being evaluated.

Operational highlights



- New COO recruited with experience in commerce, education sector management and curriculum, with extensive background in managing integration activity in M&A.
- Immediate focus on staff, leadership organisation and commercial priorities.
- Improvement in integration processes to address speed, efficiency and communication – impact likely to be observed in 2017 acquisitive transition performance.
- Focus on centres to ensure efficiencies on procurement, enrolment process and learning support.
- Increased focus on education and learning outcomes through re-organising structure and gearing to new curriculum, teaching and learning practice – e.g.
 - 2017 roll out of Oral Language development programme,
 - School readiness programme,
 - Nutrition and physical well being programme.
- Second Parent survey in progress – over 7000 families included.
- Brand consolidation project in progress to address dilution on digital platforms and market communication.
- Systemising enrolments to increase occupancy and service levels.

Sector overview



- Barriers to entry - regulatory hurdles for operating centres is increasing:
 - Food Safety Act - registration and verification process,
 - Health and Safety Act,
 - Vulnerable Children's Act - police vetting for all staff and contractors,
 - Review of the school start age regulations by MOE.
- Continued MOE focus on participation, quality and funding to lower socio groupings.

Appendix A

Reconciliation of Non-GAAP Financial Information



\$000	H1 FY 17 Actual	H1 FY 16 Actual
Statutory Net Profit after tax	8,837	8,435
Net finance expense	547	566
Income tax expense	3,678	2,833
EBIT	13,062	11,834
Depreciation	1,004	779
Amortisation	300	222
EBITDA including acquisition and integration expenses	14,366	12,835
Acquisition expenses	451	723
Integration expenses	328	205
EBITDA excluding acquisition and integration expenses (underlying)	15,145	13,763

Appendix B

H1 FY 17 Results v Normalised H1 FY 16



\$000	H1 FY 16 Items not in H1 FY 17					H1 FY17 Actual	Increase %
	H1 FY16 Actual	Tax Credit *	Earnout Reversal **	JV Profit Share ***	Adjusted H1 FY 16		
Revenue	70,215		(294)	(122)	69,799	76,368	9%
EBITDA (underlying)	13,763		(294)	(122)	13,347	15,145	13%
Net profit after tax	8,435	(418)	(294)	(122)	7,601	8,837	16%

Notes:

* Tax credit in H1 FY16 is an unusually large prior period adjustment relating to the FY15 year.

** Earnout adjustments were H1 FY 16 events only.

*** JV profit share is non-repeating in H1 FY 17 due to the disposal of Evolve's 50% investment.

Appendix C - Balance Sheet



- Bank borrowings of \$32.2m relate entirely to acquisition of centres, nil working capital facility drawn.
- Undrawn facilities at September 2016;
 - working capital facility: \$30m
 - acquisition facility: \$27.8m
- Gearing ratio, allowing for annualisation of acquired earnings, tracks between 1.2 and 1.75 dependent on the MoE funding cycle.

	H1 FY 17	H1 FY 16
\$000		
Current Assets		
Cash and cash equivalents	3,085	2,717
Funds Receivable	1,279	-
Other current assets	2,204	1,826
Total current assets	6,568	4,543
Non-current assets		
Property, plant and equipment	5,879	5,785
Investment in equity accounted joint venture	-	1,584
Deferred tax asset	840	826
Intangible assets	197,606	182,205
Total non-current assets	204,325	190,400
Total assets	210,893	194,943
Current liabilities		
Trade and other payables	5,099	5,060
Current income tax liabilities	556	1,101
Funding received in advance	-	112
Employee entitlements	6,273	5,942
Total current liabilities	11,928	12,215
Non-current liabilities		
Borrowings	33,200	25,425
Total non-current liabilities	33,200	25,425
Total liabilities	45,128	37,640
Net assets	165,765	157,303
Equity		
Issued share capital	157,785	156,926
Retained earnings	7,980	377
Total equity	165,765	157,303

Appendix C (cont) - Cash flow

	H1 FY 17	H1 FY 16
<ul style="list-style-type: none"> Half year operating cash flows are reflective of the phasing of MoE funding receipts, which are received every four months. Only one receipt in the first half of the year. Provisional tax on prior periods full year's results and dividend related taxes. Net bank borrowings drawn relates to acquisitions made. 		
\$000		
Cash flows from operating activities		
Receipts from customers (including Ministry of Education funding)	58,320	52,966
Dividends received	76	59
Payments to suppliers and employees	(65,755)	(61,372)
Taxes paid	(4,508)	(2,782)
Net cash flows from operating activities	(11,867)	(11,129)
Cash flows from investing activities		
Payments for purchase of businesses	(6,983)	(14,713)
Proceeds from sale of investment in equity accounted joint venture	1,550	-
Payments for property, plant and equipment	(1,269)	(1,151)
Interest received	52	102
Net cash flows from investing activities	(6,650)	(15,762)
Cash flows from financing activities		
Share issue costs	(7)	-
Interest paid on borrowings	(599)	(427)
Bank borrowings drawn	163,840	45,425
Bank borrowings repaid	(176,505)	(20,000)
Dividends paid	(3,751)	-
Net cash flows from financing activities	(17,022)	24,998
Net cash flows	(35,539)	(1,893)
Cash and cash equivalents at beginning of period	38,624	4,610
Cash and cash equivalents at end of period	3,085	2,717

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 the performance of Evolve Education Group Limited (“Evolve Education”) for the period ended 30 September 2016. Please refer to the un-audited interim financial statements for the period ended 30 September 2016 that have been simultaneously released with this presentation.

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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This presentation includes non-GAAP financial measures in various sections. This information has been included on the basis that management and the Board believe that this information assists readers with key drivers of the performance of Evolve Education which are not otherwise disclosed as part of the financial statements.

Thank you

