

evolve
education group



INITIAL PUBLIC OFFERING

OF ORDINARY SHARES
IN EVOLVE EDUCATION
GROUP LIMITED.

INVESTMENT STATEMENT
dated 14 November 2014

SOLE BOOKRUNNER
AND ARRANGER,
JOINT LEAD
MANAGER

JOINT
LEAD
MANAGER

Goldman
Sachs



FORSYTH BARR

IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978.)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

This document is an investment statement. The purpose of an investment statement is to:

- provide certain key information that is likely to assist a prudent but non-expert person to decide whether or not to subscribe for securities; and
- bring to the attention of such a person the fact that other important information about the securities is available to that person in other documents.

For more information to assist you in deciding whether or not to purchase the Shares offered to you, you are recommended to read the Prospectus which has been prepared in respect of this Offer.

The Financial Markets Authority regulates conduct in financial markets

The Financial Markets Authority regulates conduct in New Zealand's financial markets. The Financial Markets Authority's main objective is to promote and facilitate the development of fair, efficient, and transparent financial markets.

For more information about investing, go to <http://www.fma.govt.nz>

Financial advisers can help you make investment decisions

Using a financial adviser cannot prevent you from losing money, but it should be able to help you make better investment decisions.

Financial advisers are regulated by the Financial Markets Authority to varying levels, depending on the type of adviser and the nature of the services they provide. Some financial advisers are only allowed to provide advice on a limited range of products.

- When seeking or receiving financial advice, you should check—
- the type of adviser you are dealing with;
- the services the adviser can provide you with; and
- the products the adviser can advise you on.

A financial adviser who provides you with personalised financial adviser services may be required to give you a disclosure statement covering these and other matters. You should ask your adviser about how he or she is paid and any conflicts of interest he or she may have.

Financial advisers must have a complaints process in place and they, or the financial services provider they work for, must belong to a dispute resolution scheme if they provide services to retail clients. So if there is a dispute over an investment, you can ask someone independent to resolve it.

Most financial advisers, or the financial services provider they work for, must also be registered on the financial service providers register. You can search for information about registered financial service providers at <http://www.fspr.govt.nz>

You can also complain to the Financial Markets Authority if you have concerns about the behaviour of a financial adviser.

Important Notice

This document (**Investment Statement**) is for an initial public offer of Shares in Evolve Education Group Limited (**Evolve Education**). Evolve Education is the issuer of the Shares for the purposes of the Securities Act and Securities Regulations. Kern Group NZ Limited and Wraith Capital Group NZ Limited are promoters of the Offer and those of its directors who are not also directors of Evolve Education (namely Samuel (Chris) Giufre) are deemed to be promoters of the Offer (**Promoters**).

This document is an investment statement for the purposes of the Securities Act and the Securities Regulations, and has been prepared as at, and dated, 14 November 2014. It has been prepared in compliance with the Securities Act and the Securities Regulations, as modified by the Securities Act (Form and Content of Investment Statement for Equity Security Offers) Exemption Notice 2014. There is a registered prospectus containing an offer of securities to which this Investment Statement relates.

This Investment Statement is an important document and should be read carefully before deciding whether or not to invest in Evolve Education.

No person is authorised by the directors of Evolve Education or the Promoters to give any information or make any representation in connection with the Offer which is not contained in this Investment Statement, the Prospectus or in any other communications from the Directors. Any information or representation in connection with the Offer not so contained may not be relied on as having been authorised by Evolve Education, the Directors or the Promoters.

If you are in any doubt as to any aspect of the Offer, you should consult your financial or legal adviser or an NZX Firm or Broker.

You should seek your own taxation advice on the implications of an investment in the Shares.

No guarantee

No person guarantees the Shares offered under this Investment Statement, nor warrants or guarantees the future performance of Evolve Education, the Shares or any return on any investment made pursuant to this Investment Statement.

Forward-Looking Statements

This Investment Statement contains certain statements that relate to the future. Such statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of Evolve Education and which may cause the actual returns, performance or achievements of Evolve Education to differ materially from those expressed or implied by such statements.

Given these uncertainties, you are cautioned not to place undue reliance on any forward-looking statements contained in this Investment Statement. Under no

circumstances should you regard the inclusion of forward-looking statements as a representation or warranty by Evolve Education, the Promoters, their respective officers, the directors of Evolve Education or any other person referred to in this Investment Statement with respect to the achievement of the results set out in any such statement, or that the underlying assumptions used will in fact be realised.

Selling Restrictions

The Offer is being made to members of the public in New Zealand and Australia and Institutional Investors in New Zealand, Australia and certain other overseas jurisdictions only (excluding the United States). This Investment Statement is intended for use only in connection with the proposed Offer and does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

No person may offer, sell (including resell), distribute or deliver, or invite any other person to offer, sell (including resell), distribute or deliver, any Shares or distribute any documents (including this Investment Statement) in relation to the Shares to any person outside New Zealand or Australia except in accordance with all of the legal requirements of the relevant jurisdiction.

In particular, this Investment Statement (including an electronic copy) may not be distributed to, or relied upon by, persons in the United States. In particular, Evolve Education's securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (**US Securities Act**) or the securities laws of any state of the United States and may not be offered or sold in the United States or to, or for the account or benefit of, any person in the United States unless such securities are registered under the US Securities Act, or an exemption from the registration requirements of the US Securities Act and applicable US state securities laws is available.

Unless otherwise agreed with Evolve Education, any person or entity subscribing for Shares under the Offer shall, by virtue of such subscription, be deemed to represent that he, she or it is not in a jurisdiction which does not permit the making to him, her or it of an offer or invitation of the kind described in this Investment Statement, and is not acting for the account or benefit of a person within such a jurisdiction.

None of Evolve Education, the Promoters, the Joint Lead Managers nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

Information for Australian Investors

Potential investors under the Offer who are resident in Australia should read the Information for Australian Investors accompanying this Investment Statement before deciding whether or not to purchase Shares under the Offer. The Information for Australian Investors contains disclosures relevant to potential investors under the Offer who are resident in Australia and important notices required for the Offer to qualify as a 'recognised offer' under Chapter 8 of the Australian Corporations Act 2001 (Cth) and the Australian Corporations Regulations 2001 (Cth).

Risk and Suitability of an Investment in Evolve Education

This Investment Statement does not take into account your investment objectives, financial situation and particular needs. You should read this Investment Statement in full before deciding whether to subscribe for Shares under the Offer. In particular, you should consider the nature of the investment in the Shares and the risk factors that could affect Evolve Education's performance (including those risks set out in Section 7 *What are my Risks?*), having particular regard to your own personal circumstances. If you are in any doubt as to any aspect of the Offer you should consult your financial or legal adviser or an NZX Firm or Broker before deciding to invest.

Definitions

Capitalised terms used in this Investment Statement have the specific meaning given to them in the *Glossary* in Section 11 of this Investment Statement.

Unless otherwise indicated, any reference to \$, NZ\$, NZD or cents refer to New Zealand dollars and cents, and references to dates and times are to dates and times in New Zealand.

Takeovers Code (Evolve Education Group Limited) Exemption Notice 2014

Under the Lollipops Educare Acquisition Agreement referred to in the Prospectus, the current shareholders of Lollipops Educare will be issued, in aggregate, 36,209,901 Shares in Evolve Education on completion of the Lollipops Educare Acquisition (which will comprise 20.5% of the total voting rights in Evolve Education at the time of issue). The current shareholders of Lollipops Educare are likely to be considered "associates" under the Takeovers Code and have obtained an exemption from the Takeovers Code, effective from 13 November 2014, to allow them to hold the Shares issued on completion of the Lollipops Educare Acquisition without having to obtain shareholder approval or make a takeover offer under the Takeovers Code. The maximum number of Shares that the current shareholders of Lollipops Educare can be issued, in aggregate, under the Lollipops Educare Acquisition Agreement is 36,209,901 Shares and the maximum percentage of voting rights that will be held by the current shareholders of Lollipops Educare on completion of the Lollipops Educare Acquisition is 20.5%. The maximum number of Shares that each current shareholder of Lollipops Educare can be issued (and their respective maximum percentages of voting rights) are as follows: Mark Finlay and Geoffrey Hosking as trustees of the Mark Finlay Investment No.2 Trust – 20,138,542 Shares (11.4%), Russell Thompson and Geoffrey Hosking as trustees of the 111 Investment Trust – 8,257,069 Shares (4.7%), ScottFin ECE Limited – 6,605,450 Shares (3.7%), and Mark Finlay and Mark Dobson Trustee Company Limited as trustees of the HR Finlay Family Trust – 1,208,840 Shares (0.7%). In approving the granting of the exemption to the current shareholders of Lollipops Educare, the Takeovers Panel does not approve or endorse the terms of the Offer.

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For more information to assist you in deciding whether or not to purchase the Shares offered to you, you are recommended to read the Prospectus, which has been prepared in respect of this Offer. The Prospectus, which includes the most recent financial statements of Evolve Education, can be obtained, free of charge, by downloading it from:

www.evolveeducation.co.nz

by calling the Share Registrar on +64 (9) 375 5998 and requesting a copy be sent to you; or

from the Companies Office website at www.business.govt.nz/companies

1.1 WHAT IS THIS OFFER?

This is an initial public offer of ordinary shares in Evolve Education Group Limited (**Evolve Education**) by Evolve Education.

Evolve Education is a newly established company that will be built around a solid foundation of ECE brands, being Lollipops Educare and PORSE, in the ECE Centre and Home-based ECE categories, respectively.

The principal purpose of the offer of shares under this document (**Offer**) is to provide funding for the acquisition by Evolve Education of an initial portfolio of ECE Centres, Home-based ECE businesses and other related businesses¹ including:

- all the shares in Lollipops Educare Holdings Limited (**Lollipops Educare**), which owns and operates 30 ECE Centres (**Lollipops Educare Owned ECE Centres**) and the infrastructure that will be used by Evolve Education to manage the additional ECE Centres that it will acquire;

- a further 55 ECE Centres (**Additional Owned ECE Centres**); and
- all the shares in the PORSE group of companies, which owns and operates a Home-based ECE business and is an accredited training provider

(together the **Initial Portfolio**).

Evolve Education will borrow the remaining funds required to complete these acquisitions. Funds raised as part of the Offer will also be used to pay for costs incurred in connection with the Offer and the acquisition of the Initial Portfolio.

Details of the sources and uses of funds in relation to this Offer are detailed in the table below and described in more detail in the following Sections of the Prospectus:

Section 7.9 *Description of the Evolve Education Group's Financing Arrangements* and Section 8 *Details of the Offer*.

Sources	\$ (000s)	Uses	\$ (000s)
Offer proceeds	132,317	Acquisition cost of the Initial Portfolio	167,243
Shares issued to Lollipops Educare vendors	36,210	Issue expenses relating to Offer ²	12,357
Funds borrowed under New Financing Arrangements	20,000	Acquisition, listing and integration costs ³	7,130
Advances received under the Loan Agreements to fund Evolve Education's pre-Offer costs	1,798	Repayment of advances received under the Loan Agreements, plus a return amount equal to the advances received	3,596
Total Sources of Funds	190,325	Total Uses of Funds	190,325

Following completion of the Offer, Evolve Education's core business activity will be to own and operate the Initial Portfolio. Each of the businesses and companies to be acquired by Evolve Education operates from leased premises and no freehold land is being acquired by Evolve Education under any of the initial acquisitions.

In addition, the Offer will enhance Evolve Education's financial ability to pursue further growth opportunities outlined in Section 4.2 *Business Description* of the Prospectus.

Your decision whether or not to invest in ordinary shares in Evolve Education should be based on your consideration of this Investment Statement taken as a whole (and of the Prospectus) and not just this section, which provides an overview of the Offer.

As with any investment, there are risks associated with an investment in the Shares. Therefore, you should consider the risk factors that could affect Evolve Education's performance described in Section 7 *What are my Risks?*

1.2 HOW IS THE OFFER STRUCTURED?

The Offer comprises an offer by Evolve Education of 132.3 million new Shares. The gross proceeds from the Offer will be \$132.3 million, based on the Offer Price of \$1.00.

The Offer Shares will rank equally in all respects with existing Shares currently on issue in Evolve Education.

The minimum amount that must be raised in order for the Offer to proceed is \$132,317,278 (being the amount required to provide funding for the acquisition of the Initial Portfolio and pay issue expenses associated with the acquisition of the Initial Portfolio and the Offer). You can find more detail about the minimum amount to be raised in Section 10 *Statutory Information* of the Prospectus.

The Offer comprises the Broker Firm Offer and the Institutional Offer. You can find more information about the Offer in Section 9 *Terms of the Offer*.

¹ The other related businesses comprise a company that operates a Home-based ECE business and a company that manages 20 ECE Centres for third parties.

² These expenses include AUD\$1,000,000 (plus GST) fees payable to Kern Group (Paddington) Pty Limited (a company of which Greg Kern is a director and shareholder) in its capacity as financial adviser to Evolve Education. Further details are set in Section 10 *Statutory Information* in the Prospectus under the heading "Remuneration for services or recovery of expenses".

³ These expenses include AUD\$300,000 (plus GST) fees payable to Wraith Capital Group NZ Limited (a company of which Samuel (Chris) Giufre is a director and shareholder) in its capacity as consultant to Evolve Education. Further details are set in Section 10 *Statutory Information* in the Prospectus under the heading "Remuneration for services or recovery of expenses".

1.3 KEY DATES

Prospectus registered	14 November 2014
Broker Firm Offer Opening Date	9:00am, 24 November 2014
Broker Firm Offer Closing Date	12:00pm, 3 December 2014
Allotment for NZX and ASX listed Shares	4 December 2014
Expected settlement of Lollipops Educare Acquisition Agreement and PORSE Acquisition Agreement	4 December 2014
Expected commencement of quotation and trading of the Shares on the NZX Main Board and ASX	5 December 2014
Expected despatch of holding statements and any refund payments if required	by 5 December 2014
Expected settlement of Additional Acquisition Agreements	Mid December 2014 to 31 March 2015
Expected payment of initial dividend	December 2015

This timetable is indicative only. Evolve Education reserves the right to amend these dates at its discretion. The Offer may also be withdrawn by Evolve Education at any time before the allotment of Shares, at Evolve Education's sole discretion.

1.4 KEY OFFER DETAILS AND STATISTICS

Offer Price	\$1.00
Offer Shares offered by Evolve Education	132.3 million
Offer size	\$132.3 million
Total number of Shares on issue at the date of the Prospectus	8.1 million
Total number of Shares on issue upon completion of the Offer	177.1 million
Indicative market capitalisation ⁴	\$177.1 million
Prospective Net Debt ⁵	\$9.5 million
Indicative enterprise value ⁶	\$186.6 million

Certain Shareholders have entered into an agreement with Evolve Education under which they have agreed they will not sell, transfer or otherwise dispose of Shares for a period of time. More details about this are explained in Section 9 *Terms of the Offer*.

1.5 KEY INVESTMENT METRICS

	FY16F
Indicative Enterprise Value / EBITDA multiple	7.3x
Indicative Enterprise Value / EBIT multiple	7.8x
Offer Price / Earnings ratio	10.65x
Gross yield ⁷	6.52%
Net yield ⁸	4.69%

These metrics are provided to help you assess the value of Evolve Education. The calculations are explained in the table set out at the end of the *Glossary* in Section 11.

⁴ The indicative market value of the equity of Evolve Education, based on the Offer Price multiplied by the number of Shares on issue on completion of the Offer.

⁵ Evolve Education defines Net Debt as the value of borrowings, finance leases, and the balance sheet liability for Ministry of Education funding received in advance, less cash and cash equivalents. Prospective Net Debt is calculated as Net Debt as at 31 March 2015, reflecting (i) Evolve Education's capital structure as a result of the Offer; and (ii) the unearned income liability on the balance sheet at the point in time.

⁶ The indicative value of Evolve Education, being the indicative market capitalisation plus Prospective Net Debt.

⁷ Total cash dividend forecast to be payable in respect of the prospective financial year ending 31 March 2016 plus imputation credits assumed to be attached to the dividend, divided by the Indicative Market Capitalisation. The Directors assume that the dividend in respect of the prospective financial year ending 31 March 2016 will be fully imputed. Full disclosure of Evolve Education's dividend policy is stated in Section 6.5 *Board Policies and Procedures* in the Prospectus under the heading "Dividend Policy".

⁸ Cash dividend forecast to be payable in respect of the prospective financial year ending 31 March 2016 divided by the Indicative Market Capitalisation.

1.6 SELECTED FINANCIAL INFORMATION

NZ\$000s (except per share data)	Govt Funding – % of Total Revenue	Parental Revenue – % of Total Revenue	Other Revenue – % of Total Revenue	FY16F
Revenue	69%	26%	4%	136,221
• Owned ECE Centres	66%	34%	0%	105,131
• Home-based ECE	84%	0%	16%	29,973
• Other revenue	0%	0%	100%	1,117
EBITDA (Non-GAAP)				25,705
EBIT (Non-GAAP)				23,768
NPAT				16,627
Earnings per share (cents)				9.4

Prospective financial information

Wherever Prospective Financial Information appears in this Investment Statement (including in the selected financial information and the key investment metrics presented in this section) you should read that financial information together with the assumptions set out in Section 8.2 *Prospective Financial Information* and also the risk factors set out in Section 7 *What are my Risks?* There is no guarantee that the results set out in the Prospective Financial Information will be achieved. The future is uncertain and actual results may differ from those projected in the Prospective Financial Information and the differences may be material.

Key profitability drivers have been forecast based on observed data for mature ECE Centres⁹ where available. For ECE Centres that are not mature, Evolve Education has assessed profitability drivers on a centre-by-centre basis and derived forecasts with reference to the historical experience of mature ECE Centres in the Initial Portfolio. The forecasts do not include any growth potentially achievable through the acquisition of additional ECE services.

Historic financial information

The historic financial information usually required under clauses 12(3)(a) to (e) of Schedule 1 of the Securities Regulations in respect of the Additional Owned ECE Centres and other related businesses that Evolve Education has contracted to acquire is not provided in this Investment Statement or in the Prospectus on the basis of exemptions granted to Evolve Education under the Securities Act

(Evolve Education Group Limited) Exemption Notice 2014, further details of which are set out in Section 8 *Overview of Financial Information*. Evolve Education considers it is impractical to provide the required information in respect of each of these businesses. In addition, the quality and reliability of the information for each Additional Owned ECE Centre and other related business is of varying quality, inconsistent and would not in every case reflect the cost base of the business once it has been acquired by Evolve Education. Evolve Education considers that compiling and providing the information required by these clauses does not provide useful information and may be misleading. Risks relating to the acquisition of the Initial Portfolio are set in Section 7 *What are my Risks?* and Section 5 *Risks* of the Prospectus.

Non-GAAP Financial Information

In order to assist readers to better understand Evolve Education's financial performance, Evolve Education also provides non-Generally Accepted Accounting Practice (**Non-GAAP**), but commonly used, financial measures being EBITDA and EBIT, as defined below. These measures should not be considered in isolation of, or as a substitute for, NZ GAAP measures such as net profit and cash flow measures. For a reconciliation of the Non-GAAP measures to NZ GAAP measurements, please see Section 8.4 *Reconciliation of Non-GAAP Financial Information*.

The Non-GAAP financial information used in this Investment Statement has the following meaning:

EBITDA	Earnings before interest, income tax, depreciation and amortisation
EBIT	Earnings before interest and income tax
Prospective Net Debt	Net Debt is defined as the value of borrowings, finance leases, and the balance sheet liability for Ministry of Education funding received in advance, less cash and cash equivalents. Prospective Net Debt is calculated as Net Debt as at 31 March 2015, reflecting (i) Evolve Education's capital structure as a result of the Offer; and (ii) the unearned income liability on the balance sheet at the point in time

⁹ A mature ECE Centre is an ECE Centre that has been licensed and operating for two years or more.

1.7 EVOLVE EDUCATION'S OWNERSHIP STRUCTURE

The ownership structure of Evolve Education as at the date of this Investment Statement, and the indicative ownership structure upon completion of the Offer (following allotment of the Offer Shares and completion of the Lollipops Educare Acquisition) is illustrated in the table below. No Current Shareholder is selling any Shares under the Offer and none of the persons identified in the table guarantees or undertakes any liability in respect of the Shares.

Shareholder	Ownership of Evolve Education as at the date of this Investment Statement		Indicative Ownership of Evolve Education following completion of the Offer and completion of the Lollipops Educare Acquisition	
	Ordinary Shares	%	Ordinary Shares	%
Current Shareholders				
Kern Group NZ Limited	2,285,369	28.19%	2,285,369	1.29%
Wraith Capital Group NZ Limited	2,285,369	28.19%	2,285,369	1.29%
Stuart and Gillian James as trustees of the S.B. James Superannuation Fund	2,285,369	28.19%	2,285,369	1.29%
Alan Wham	550,000	6.79%	550,000	0.31%
Vivek Singh	300,000	3.70%	300,000	0.17%
Norah Barlow	80,000	0.99%	80,000	0.05%
Alistair Ryan	80,000	0.99%	80,000	0.05%
David Smith	80,000	0.99%	80,000	0.05%
Beverley Gordon	80,000	0.99%	80,000	0.05%
Paula Hawkings	80,000	0.99%	80,000	0.05%
Other Shares issued				
Vendors under the Lollipops Educare Acquisition	–	–	36,209,901	20.45%
Hayes Knight Business Services (QLD) Pty Ltd (or nominees) ¹⁰	–	–	449,438	0.25%
New Shareholders pursuant to the Offer	–	–	132,317,278	74.72%
Total	8,106,107	100%	177,082,724	100%

¹⁰ Evolve Education has agreed to issue 449,000 fully paid ordinary Shares to Hayes Knight Business Services (QLD) Pty Ltd (or its nominees) on completion of the Offer in consideration for the provision by Hayes Knight Business Services (QLD) Pty Ltd of management assistance in connection with the acquisition of the Additional Owned ECE Centres. Further details of this arrangement are contained in Section 10 *Statutory Information* in the Prospectus under the heading "Securities paid up otherwise than in cash".

LETTER FROM THE CHAIR

Dear Investor

On behalf of the Board of Directors, I am delighted to invite you to become a shareholder in Evolve Education, a newly formed company that has been established to acquire existing early childhood education businesses.

Our vision for Evolve Education is for it to become a leading provider of early childhood education in New Zealand. We believe that we can achieve this through adopting an approach of providing high quality education and childcare services through the curriculum we will teach, the educators we will train and the learning environments we will create.

The early childhood education sector in New Zealand represents an attractive investment opportunity. Demand for childcare continues to strengthen year-on-year, driven by underlying trends, such as increasing female participation in the labour force, rising household income levels and continued Government support.

Evolve Education is well-positioned to benefit from offering both centre-based and home-based education and childcare, as we will have the capability to offer parents and caregivers the choice about the type of service in which they think their child will flourish. We will also look to leverage the collective expertise of the combined entities to promote and pursue best practice in early childhood education. I believe that this is fundamental to establishing Evolve Education as a leading provider of education to young children.

Evolve Education Group has initially contracted to acquire 85 early childhood education centres and 91 home-based education licences located throughout New Zealand to form the initial portfolio and will be headlined by two established New Zealand ECE brands in Lollipops Educare and PORSE. These brands have been providing childcare for over 15 years and provide invaluable knowledge and expertise in the sector. Notably, the ability to leverage off Lollipops Educare's existing operating platform significantly mitigates integration risks, which will be a key focus of our team over the next few months.

Our Board and management team are confident in the Evolve Education business strategy and believe we can successfully execute our plan for growth. We will aim to continue to grow organically through providing childcare services that are enjoyed by children and truly valued by their parents / caregivers. Additionally, the highly fragmented nature of the industry provides scope to increase scale of the service offering beyond the initial portfolio and leverage efficiencies in the business.

This Investment Statement contains a significant amount of information about Evolve Education and the sector in which we will operate, along with important information in relation to the Offer. I encourage you to read this Investment Statement in its entirety and carefully consider the risks which are described in Section 7.

On behalf of the Board and management team, we are confident about the future prospects for Evolve Education and look forward to welcoming you as a shareholder.

Yours sincerely,



Norah Barlow

Chair

Evolve Education Group Limited



INVESTMENT HIGHLIGHTS

The investment highlights in this section should be read in conjunction with other parts of this Investment Statement, including the risks set out in Section 7 *What are my Risks?*

1

UNDERLYING ECONOMIC
INDICATORS ARE SUPPORTIVE
OF INDUSTRY GROWTH

2

SUPPORTIVE GOVERNMENT
POLICIES PROVIDE CASHFLOW
STABILITY

3

NEW ZEALAND ECE MARKET IS
HIGHLY FRAGMENTED WHICH
PROVIDES AN OPPORTUNITY
TO CONSOLIDATE AND DERIVE
EFFICIENCIES

4

EVOLVE EDUCATION AIMS
TO OPERATE A PORTFOLIO
OF HIGH QUALITY
EARLY CHILDHOOD
EDUCATION SERVICES

5

BUSINESS MODEL FOCUSED ON
ACHIEVING EFFICIENCIES AND
GROWTH TO SUPPORT QUALITY
ECE SERVICE DELIVERY

6

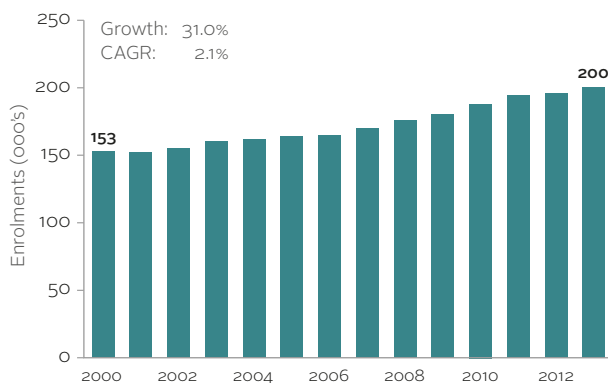
EVOLVE EDUCATION TEAM
CAPABLE OF EXECUTING
GROWTH STRATEGY



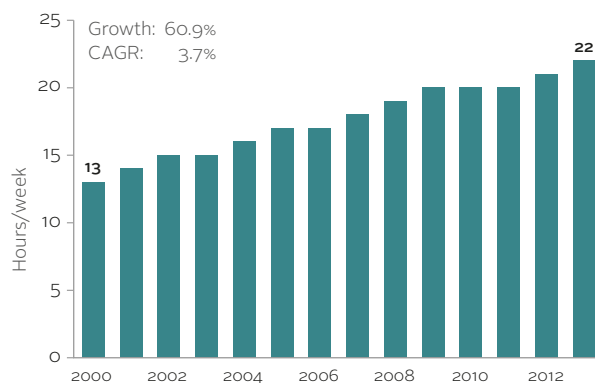
- Early childhood education (**ECE**) has been shown to positively affect a child's literacy, numeracy and problem-solving skills¹¹, and demand for ECE services has increased consistently from 2000 to 2013.
- This growth has been driven by a number of favourable economic drivers:
 - Increased female employment and higher rates of participation;
 - Stronger household income levels;
 - Increased Government funding in ECE services; and
 - Sustained population growth for children under 6 years old across New Zealand.

ECE INDUSTRY GROWTH INDICATORS

ENROLMENTS IN ECE SERVICES¹²



AVERAGE HOURS SPENT IN ECE PER WEEK



Source: Ministry of Education, Education Counts – Enrolments in ECE, Education Counts – Hours of participation in ECE. Data as at June 2013, last updated March 2014

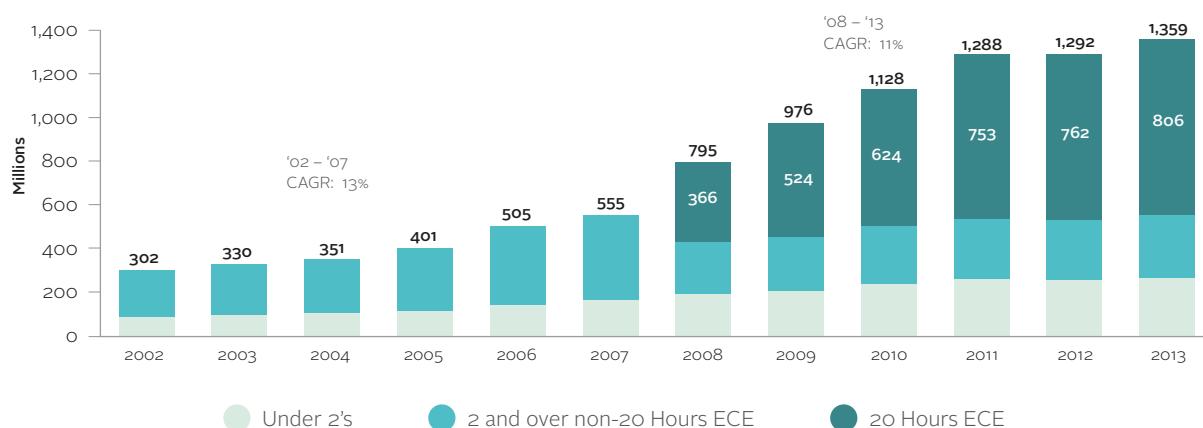
¹¹ "Participation in ECE" paper, pg 2. Stated source: OECD, 2011, Statistics NZ and Ministry of Pacific Island Affairs, 2010, and Whyllie et al, 2009.

¹² Excludes number of enrolments in correspondence schools, casual education & care and hospital based care.



- Government funding is expected to represent approximately 69% of Evolve Education's revenue. This provides some confidence around the business' cashflow, assuming continuity of Government funding, along similar lines as has historically been the case.
- The New Zealand Government has acknowledged the importance of ECE both in terms of support to working parents and developmental benefits to children¹³.
- From 2007 to 2013, funding has increased 145% as the Government has further increased its support of ECE with significant funding boosts, primarily through the introduction of 20 Hours ECE in June 2007¹⁴.

NEW ZEALAND GOVERNMENT ECE FUNDING (\$M)



Source: Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014

¹³ Ministry of Education, "Participation in ECE" paper.

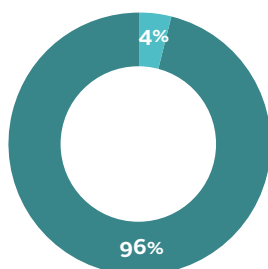
¹⁴ Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014.

3

NEW ZEALAND ECE MARKET IS HIGHLY FRAGMENTED WHICH PROVIDES AN OPPORTUNITY TO CONSOLIDATE AND DERIVE EFFICIENCIES

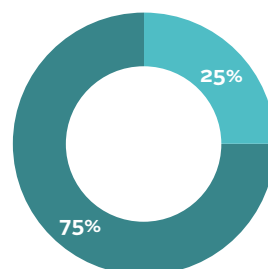
- Evolve Education's ECE Centres are expected to comprise approximately 4% of the ECE Centre market. Evolve Education's Home-based Licences are expected to comprise approximately 25% of the Home-based Licence market¹⁵.
- Consolidation of individual or small groups of centres into a unified corporate structure offers distinct advantages to the existing fragmented structure if risks relating to integration of the centres can be managed. This is discussed further in Section 5.3.2 *Driving efficiencies and improving the education experience* and in Section 7 *What are my Risks?* In addition, there are risks associated with Evolve Education's limited operating history, which are also discussed in Section 7 *What are my Risks?*

EVOLVE EDUCATION'S SHARE OF THE ECE CENTRE MARKET (NUMBER OF ECE CENTRES)



● Evolve Education ECE Centres **85**
● Other **2,247**

EVOLVE EDUCATION'S SHARE OF THE HOME-BASED ECE MARKET (NUMBER OF HOME-BASED LICENCES)



● Evolve Education Home-based ECE Licences **91**
● Other **268**


Source: Evolve Education / Ministry of Education, Education Counts – Number of ECE services. Excludes casual education & care and hospital based care. Data as at June 2013, last updated April 2014.

¹⁵ Evolve Education / Ministry of Education, Education Counts – Number of ECE services. Excludes casual education & care, and hospital based care. Data as at June 2013, last updated April 2014.

4

EVOLVE EDUCATION AIMS TO OPERATE A PORTFOLIO OF HIGH QUALITY EARLY CHILDHOOD EDUCATION SERVICES

- Evolve Education will be built around a solid foundation of ECE brands, including Lollipops Educare and PORSE, which operate in the ECE Centre and Home-based ECE categories, respectively.
- Offering both centre-based and home-based ECE gives parents and caregivers the option to choose which type of ECE service best suits their child's learning and care needs.
- Evolve Education has agreed to acquire 55 additional ECE Centres from 39 separate vendors. The number of ECE Centres being sold by each vendor ranges from one to nine ECE Centres. Evolve Education has contracted to acquire these ECE Centres through the application of selection criteria, further details of which are set out in Section 5.3 *Business Model*.
- The result will be a portfolio of ECE service providers and brands with the following key metrics.

ECE SERVICE	BRAND
ECE Centres	
Home-based ECE	

Summary metrics for Initial Portfolio ¹⁶	ECE Centres	Home-based ECE
FY16F Revenue (\$ millions)	105.1	30.0
Number of ECE Centres / Home-based Licences ¹⁷	85	91
Number of Licensed Child Places ¹⁸	5,954	7,280
FY16F MOE occupancy ¹⁹	87.0%	NA

¹⁶ See table under the heading "Key drivers of profitability" in Section 4.2 *Business Description* for further explanation of these metrics.

¹⁷ A Home-based Licence refers to the licence required for a Home-based ECE service provider to provide ECE services to a specified number of children. Typically, one Home-based Licence would be for 80 Licensed Child Places.

¹⁸ Specified number of child places that represents the regulatory limit on the number of children that can attend an ECE service at any one time.

¹⁹ The total Ministry of Education funded child hours attended, as a percentage of the maximum funded hours available (licensed capacity x 30 hours/week).



EVOLVE EDUCATION'S BUSINESS MODEL IS FOCUSED ON THREE KEY ASPECTS:



1 Establishment of a high quality portfolio. The Initial Portfolio coupled with a corporate support structure based around Lollipops Educare's existing infrastructure will provide a platform for future growth.

2 Driving efficiencies and improving the education experience. Streamlining systems and operations, continuing development for teachers and facilitating administration and compliance activity, all allow educators to remain focused on the core service delivery in the centres they operate.

3 Growth through acquisitions and other initiatives. Evolve Education will be a relevant industry participant and have the ability to further extend its national presence. This is intended to be achieved through both organic and acquisition growth.

For further information on Evolve Education's growth strategy see Section 5.3.3 *Growth through acquisitions and other initiatives*.



- The Evolve Education team led by Alan Wham, is highly experienced and equipped to execute Evolve Education's integration plan and growth strategy.
- Overall, the combined team is balanced to provide the required skills including detailed knowledge of the ECE industry and commercial experience, combined with experience in integrating businesses into a successful operating model.

For details on the experience of the Directors and for further details on the experience of the senior management team see Section 6 *Board and Senior Management*.

Left to right:

Vivek Singh (CFO)
 Paula Hawkings (GM Lollipops Educare)
 David Smith (COO)
 Jenny Yule (CEO PORSE)
 Alan Wham (CEO)
 Beverley Gordon (Financial Controller)
 Mark Finlay (Executive Director)



4.1 WHAT IS THE EARLY CHILDHOOD EDUCATION INDUSTRY IN NEW ZEALAND?

The early childhood education (ECE) industry in New Zealand provides care and early childhood education to children until they attend primary school. ECE has been shown to positively affect a child's literacy, numeracy and problem-solving skills²⁰. Demand for ECE services has been increasing consistently over the 2000 to 2013 period as the level of female workforce participation increases, Government support of the industry has risen and household income levels have increased.

Services Provided

Licensed ECE services in New Zealand provide education and care services to children until they attend primary school, from both purpose-built facilities and home-based locations. The industry can be divided into two distinct forms of service, being teacher-led services and parent-led services.

Teacher-led services	A teacher-led ECE service is one where one or more ECE qualified and registered teachers are responsible for the overall programme in the ECE service. A qualified teacher would have a Diploma of Teaching in ECE or an equivalent qualification. A wide range of ECE services are led by teachers, ranging from kindergarten to private ECE services and home-based ECE services ²¹ .
Parent-led services	In parent-led services, the parents or caregivers of the children are primarily responsible for implementing the curriculum and working with the children. The parents or caregivers may manage the ECE service. Parent-led ECE services do not usually employ teachers and do not have to meet the teacher registration requirements ²² .

The total number of licensed ECE services in New Zealand has grown from approximately 3,370 in 2000 to approximately 4,250 in 2013, representing a compound annual growth rate of 1.8%. This growth has been driven by teacher-led services, which have grown by approximately 3% per annum since 2000, and now comprise nearly 80% of licensed ECE services in New Zealand. In contrast, the number of parent-led services has declined 1.5% per annum since 2000 and now there are only 917 licensed services throughout New Zealand²³. This trend has been driven by the increasing number of families where both parents work and the increased affordability of teacher-led services due to Government funding and higher household incomes (see Section 4.2 *Industry growth and demand drivers* for further detail on industry growth).

Evolve Education's Initial Portfolio will only comprise teacher-led services. Management believe the long-term growth in teacher-led services will continue and have therefore positioned Evolve Education to focus on this segment of the industry.

Teacher-led services employ a number of different models, including early childhood education centres (**ECE Centres**) and home-based early childhood education (**Home-based ECE**). Descriptions of each of these models and key New Zealand industry metrics are set out in the table below:

Service type	Description
ECE Centres	<ul style="list-style-type: none"> Generally private or community owned, ECE Centres offer all day or part-day ECE services and depending on the centre may accept children from birth to school age The number of licensed places per ECE Centre varies depending on the size and facilities in the ECE Centre, but is on average, 44 Licensed Child Places with a maximum of 150 Licensed Child Places
Home-based ECE	<ul style="list-style-type: none"> This service 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 A service provider is an agency or person who arranges / manages education and care for the children and is the holder of the licence. The Home-based ECE service provider can operate a maximum of 80 child places for each licence
Kindergartens	<ul style="list-style-type: none"> Most kindergartens offer services to children between two and five years with session times provided separately for older and younger children or all day care sessions

Source: Ministry of Education – Choices in early childhood education, Education Counts – Number of ECE services as at June 2013, Education Counts – Number of licensed ECE places as at June 2013, Education Counts – Hours of participation in ECE as at June 2013, Education Counts – Occupancy rates as at June 2013

²⁰ Ministry of Education, "Participation in ECE". Stated source: OECD, 2011, Statistics NZ and Ministry of Pacific Island Affairs, 2010, and Whyllie et al, 2009).

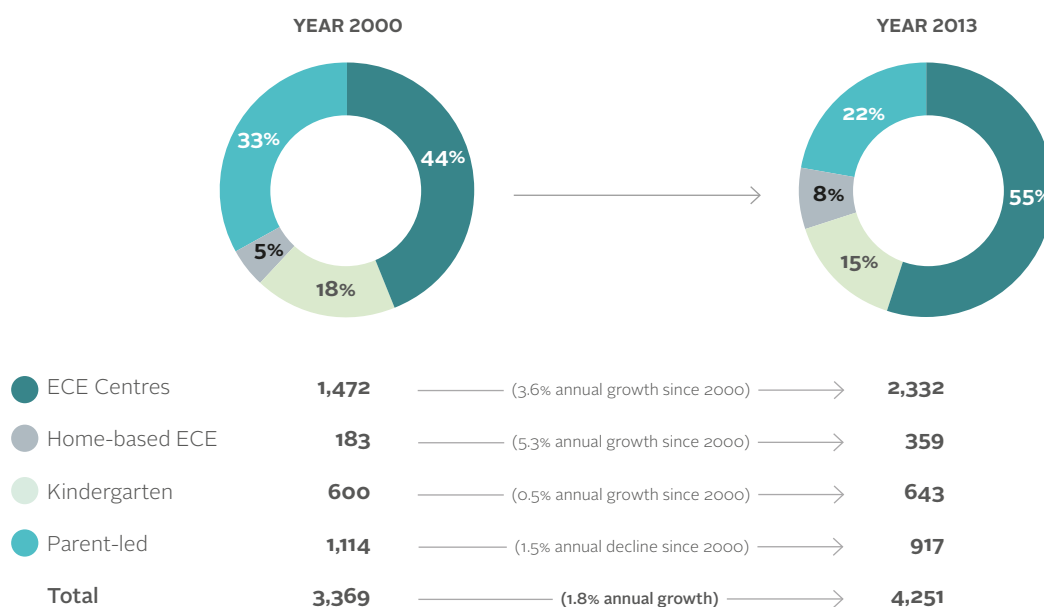
²¹ 20 Hours ECE Information and Guidance for Parents – Oct 12.

²² 20 Hours ECE Information and Guidance for Parents – Oct 12.

²³ Ministry of Education, Education Counts – Number of ECE services. Excludes casual education & care and hospital based care. Data as at June 2013, last updated April 2014.

Evolve Education's Initial Portfolio will only include ECE Centres and Home-based ECE services, which have been the highest growth teacher-led business models since 2000. ECE Centres currently comprise 55% of the licensed New Zealand ECE market, while licensed Home-based ECE represents 8% of the market. These two models have grown at 3.6% per annum and 5.3% per annum respectively and now comprise a significantly larger portion of the industry than they did in 2000, as indicated below:

NUMBER OF TEACHER- VS PARENT-LED ECE SERVICES



Source: Ministry of Education, Education Counts – Number of ECE services. Excludes casual education & care and hospital based care. Data as at June 2013, last updated April 2014

Regulation

The Ministry of Education regulates all ECE services in New Zealand. The Ministry of Education issues licences and provides funding to ECE service providers that meet minimum standards set by the Government to ensure the health, comfort, care, education and safety of the children attending²⁴.

Licensing criteria for ECE services²⁵

- All ECE service providers are regulated by the Ministry of Education and must meet the minimum standards of education and care described in the Education (Early Childhood Services) Regulations 2008 in order to hold a licence and receive Government funding.
- The licensing criteria covers four main areas:
 - Curriculum
 - Premises and facilities
 - Health and safety
 - Governance, management and administration

²⁴ Education (Early Childhood Services) Regulations 2008, part 2 subpart 1.

²⁵ Education (Early Childhood Services) Regulations 2008.

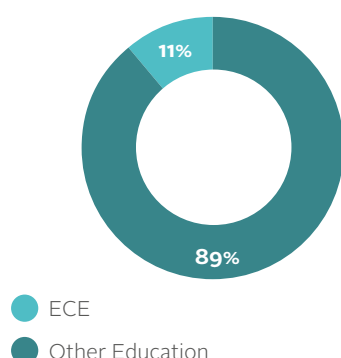
Government Support of Early Childhood Education

The New Zealand Government has been supportive of the wider education sector and the ECE industry through its public funding. In 2011, New Zealand ranked 3rd equal out of the OECD countries for Government expenditure on all levels of education as a percentage of GDP²⁶. In 2009, New Zealand had the 7th highest public expenditure on ECE as a proportion of total public expenditure for OECD countries²⁷.

As at June 2013, Government funding for education was \$12.5 billion and of this, 11% was allocated to the ECE industry, which was a Government contribution of \$1.36 billion²⁸.

The Government funding has encouraged participation in, and the supply of, ECE services. Licensed ECE service providers are funded by the Government through a number of initiatives but predominantly through the ECE Funding Subsidy and 20 Hours ECE²⁹.

PORTION OF EDUCATION FUNDING ALLOCATED TO ECE



Source: Financial Statements of the Government of New Zealand for the year end June 2013

ECE Funding Subsidy

The ECE Funding Subsidy is the primary form of Government funding for licensed ECE services. This subsidy contributes to an ECE service's operating costs by paying a fixed sum for each hour that a child spends in ECE, up to a maximum of six hours per day, and up to 30 hours per week. There are separate funding subsidy rates for teacher-led and parent-led services for children aged under two, and children aged two and over.

20 Hours ECE

20 Hours ECE is a programme fully funded by the Government that enables children to attend ECE services for up to six hours per day, and up to 20 hours per week free of charge. All children three years and above are entitled to receive 20 Hours ECE up to the point where they attend school.

Children eligible for 20 Hours ECE are also entitled to receive an additional 10 hours per week subsidised ECE as part of the ECE Funding Subsidy programme.

Prior to the implementation of 20 Hours ECE, Government funding for ECE was \$555 million (or 6% of total education funding in New Zealand) for the year ended June 2007 and as at June 2013 this figure was approximately \$1.36 billion (or 11% of total education funding), up 145%. Of this, 20 Hours ECE makes up nearly 60% of total ECE funding³⁰.

Funding that is received by ECE service providers depends on a range of factors, including:

- The type of ECE service provided;
- The number of qualified teachers employed by the ECE service provider;
- The quality of education provided; and
- The age of the child.

The Government attempts to encourage ECE services that offer more quality education and care by providing higher funding rates to services with more qualified teachers.

Fees

Fees received by ECE service providers come from two primary sources:

- Fees received from the Government through 20 Hours ECE and ECE Funding Subsidy; and
- Fees received directly from parents and caregivers for enrolment hours not subsidised by the Government, and for the payment for optional services offered by the ECE service provider, beyond the standard regulation requirement.

²⁶ OECD Education at a Glance 2014.

²⁷ Ministry of Education, Education Counts – ECE Expenditure Indicator Report.

²⁸ Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014.

²⁹ ECE Funding Handbook – Glossary.

³⁰ Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014.

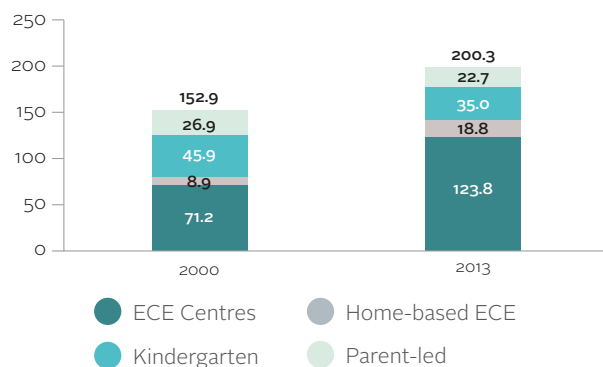
4.2 INDUSTRY GROWTH AND DEMAND DRIVERS

The ECE industry has shown positive historical growth, which has been supported by a number of fundamental drivers.

As indicated below, since 2000, the number of ECE enrolments and the average time spent in ECE per child have both shown consistent and stable growth. This has been driven by increasing female employment, higher average household incomes, population growth and increases in Government ECE funding.

INDUSTRY GROWTH

NUMBER OF ENROLMENTS IN LICENSED ECE SERVICES (OOOS)



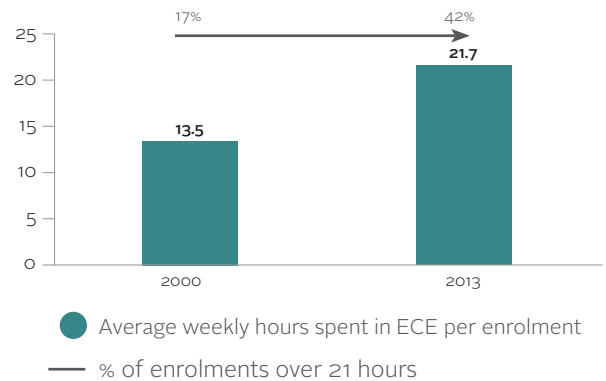
Source: Ministry of Education, Education Counts – Enrolments in ECE. Data as at June 2013, last updated March 2014

Number of ECE enrolments

The number of children enrolled in ECE services has grown significantly since the year 2000, up 31% to approximately 200,000 children in 2013³¹. This growth has been led by Home-based ECE and ECE Centres, which have grown at an annual rate of 5.9% and 4.3% respectively over this period.

The reduction in kindergarten enrolments is due to a shift in the services offered from sessional to all-day services, resulting in the number of enrolments falling and the average hours of enrolment rising³².

AVERAGE WEEKLY ENROLMENT HOURS



Source: Ministry of Education, Education Counts – Hours of participation in ECE. Data as at June 2013, last updated March 2014

Time spent in ECE

Time spent by children in ECE per week has been increasing since 2000 and now, on average, a child enrolled in ECE spends 21.7 hours in ECE per week, up from 13.5 hours in 2000. Notably, in 2000 only 17% of children spent over 21 hours per week in ECE, while in 2013 this percentage was 42%³³.

DEMAND DRIVERS FOR ECE SERVICES

GROWTH DRIVERS



Note: Growth reflects per annum growth rate from 2000 – 2013 except for female labour participation (2000 – 2014) and Government ECE subsidies (2002 – 2013).

Source: Ministry of Education, Education Counts – Enrolments in ECE, Ministry of Education, Education Counts – Hours of participation in ECE, Statistics New Zealand, Ministry of Education, Education Counts – ECE expenditure

See Section 4.1.2 *Industry growth and demand drivers* of the Prospectus for further detail.

³¹ Excludes enrolments in correspondence services.

³² MOE "Participation in early childhood education".

³³ Ministry of Education, Education Counts – Hours of participation in ECE. Data as at June 2013, last updated March 2014.

4.3 MARKET FRAGMENTATION

The New Zealand ECE industry consists of approximately 4,250 licensed public and private ECE services.

Evolve Education's primary focus will be on teacher-led ECE services which make up just under 80% of all ECE services³⁴.

The ECE service market is highly fragmented, with the majority of the industry being comprised of smaller operators, of which many are single site service providers. Evolve Education considers the key industry participants in the ECE Centre market to be Kidicorp and Kindercare, and the key industry participants in the Home-based ECE market to be Barnardos, Footsteps Education, Paua and Home Grown Kids.

Evolve Education's ECE Centres are expected to comprise approximately 4% of the ECE Centre market and approximately 6% of the total Licensed Child Places within the ECE Centre market. On average, an ECE Centre has 44 Licensed Child

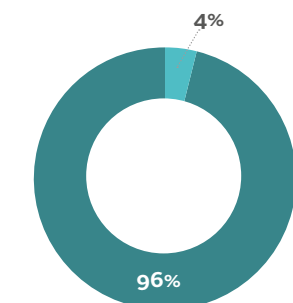
Places whereas Evolve Education will, on average, have 70 Licensed Child Places per ECE Centre. This larger than average capacity is a reflection of Evolve Education's acquisition criteria one of which was to acquire ECE Centres that are purpose built or recently renovated. A larger ECE Centre is more profitable given that it provides ECE services to more children with similar costs structures to a smaller ECE Centre. The average ECE Centre size has been increasing for a number of years since maximum Licensed Child Capacity was increased from 50 to 150 children and purpose built facilities replaced smaller ECE Centres typically in converted houses.

Evolve Education's Home-based Licences are expected to comprise approximately 25% of the Home-based Licence market³⁵.

EVOLVE EDUCATION'S MARKET SHARE

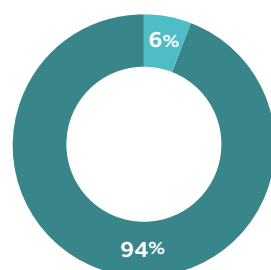
EVOLVE EDUCATION'S SHARE OF THE HOME-BASED ECE MARKET

**ECE CENTRE MARKET
(NUMBER OF ECE CENTRES)**



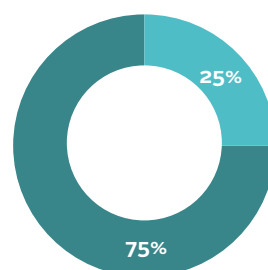
● Evolve Education (85)
● Others (2,247)

**ECE CENTRE MARKET
(NUMBER OF LICENSED CHILD PLACES)**



● Evolve Education (5,954)
● Others (96,333)

**HOME-BASED ECE MARKET
(NUMBER OF HOME-BASED ECE LICENCES)**



● Evolve Education (91)
● Others (268)

Source: Evolve Education / Ministry of Education, Education Counts – Number of ECE services and Number of Licensed Places, as at June 2013. Excludes casual education & care and hospital based care. Data as at June 2013, last updated April 2014.

The industry fragmentation presents an attractive opportunity for aggregation. Consolidation of smaller operators into a unified corporate structure offers distinct advantages to the existing fragmented structure, including:

- Improved service offering through the introduction of best practice guidelines and advanced teacher training programmes;
- Cost efficiencies with operational support, teacher development and curriculum as well as some procurement synergies; and
- Aggregation across centre-based and home-based services to provide choice for parents where children may move from Home-based ECE services to an ECE Centre.

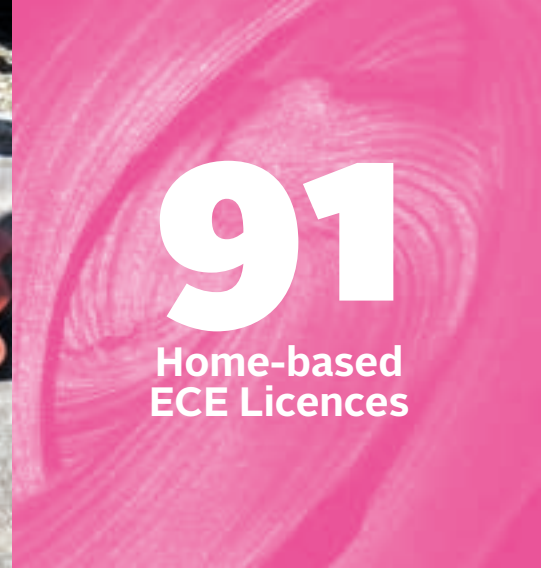
³⁴ Ministry of Education, Education Counts – Number of ECE services. Excludes casual education & care and hospital based care. Data as at June 2013, last updated April 2014.

³⁵ Evolve Education / Ministry of Education, Education Counts – Number of ECE services and Number of Licensed Places as at June 2013. Excludes casual education & care and hospital based care.





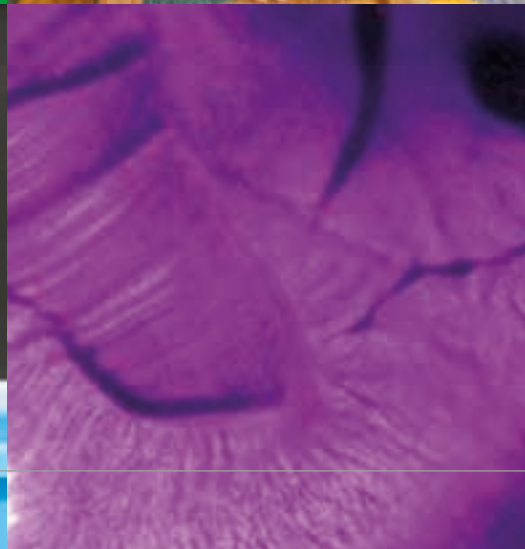
85
ECE Centres



91
Home-based
ECE Licences



13,234
Licensed Child Places



SECTION 5

BUSINESS DESCRIPTION

The purpose of Evolve Education is to provide a high quality early childhood education service which gives parents and caregivers the option of which service best suits their child's learning and care needs.

Evolve Education will acquire two leading ECE service providers being Lollipops Educare and PORSE, as well as smaller ECE businesses that will provide education and care to children from birth to primary school. Together, the Evolve Education Group will look to leverage its combined expertise and scale to provide quality ECE services covering ECE Centre and Home-based ECE services.

For investors, Evolve Education will provide exposure to New Zealand's growing ECE industry. Evolve Education has entered into contracts to acquire Lollipops Educare (which owns and operates 30 ECE Centres), an additional 55 ECE Centres and the Home-based ECE service of PORSE. Proceeds from the Offer, along with bank finance, will be used to fund these acquisitions and also to position the Evolve Education Group to pursue further acquisition opportunities.

LOCATION OF INITIAL PORTFOLIO



NORTH ISLAND

Region	# of Centres	# of Home-based Licences
1 Northland	–	1
2 Auckland	36	27
3 Waikato	4	7
4 Bay of Plenty	5	9
5 Hawke's Bay	7	7
6 Taranaki	2	5
7 Manawatu – Whanagnui	6	5
8 Wellington	10	17
Total	70	78

SOUTH ISLAND

Region	# of Centres	# of Home-based Licences
1 Nelson	1	2
2 Marlborough	2	1
3 West Coast	1	1
4 Canterbury	9	7
5 Otago	1	2
6 Southland	1	–
Total	15	13

Source: Evolve Education

Lollipops Educare, PORSE, the Additional Owned ECE Centres and the other related businesses to be acquired by Evolve Education will, on completion of its acquisition, be owned by Evolve Education or a wholly owned subsidiary of Evolve Education.

5.1 PORTFOLIO OF LEADING ECE BRANDS

Evolve Education is a newly established childcare business that will be built around a solid foundation of existing ECE brands in both the ECE Centre and Home-based ECE categories.

The key ECE Centre brand will be Lollipops Educare and the key Home-based ECE brand will be PORSE, which have both been providing high quality education and care services in New Zealand for many years.

Following listing, Evolve Education will look to leverage the collective expertise of its operations to promote and pursue best practice in ECE across the Evolve Education Group.

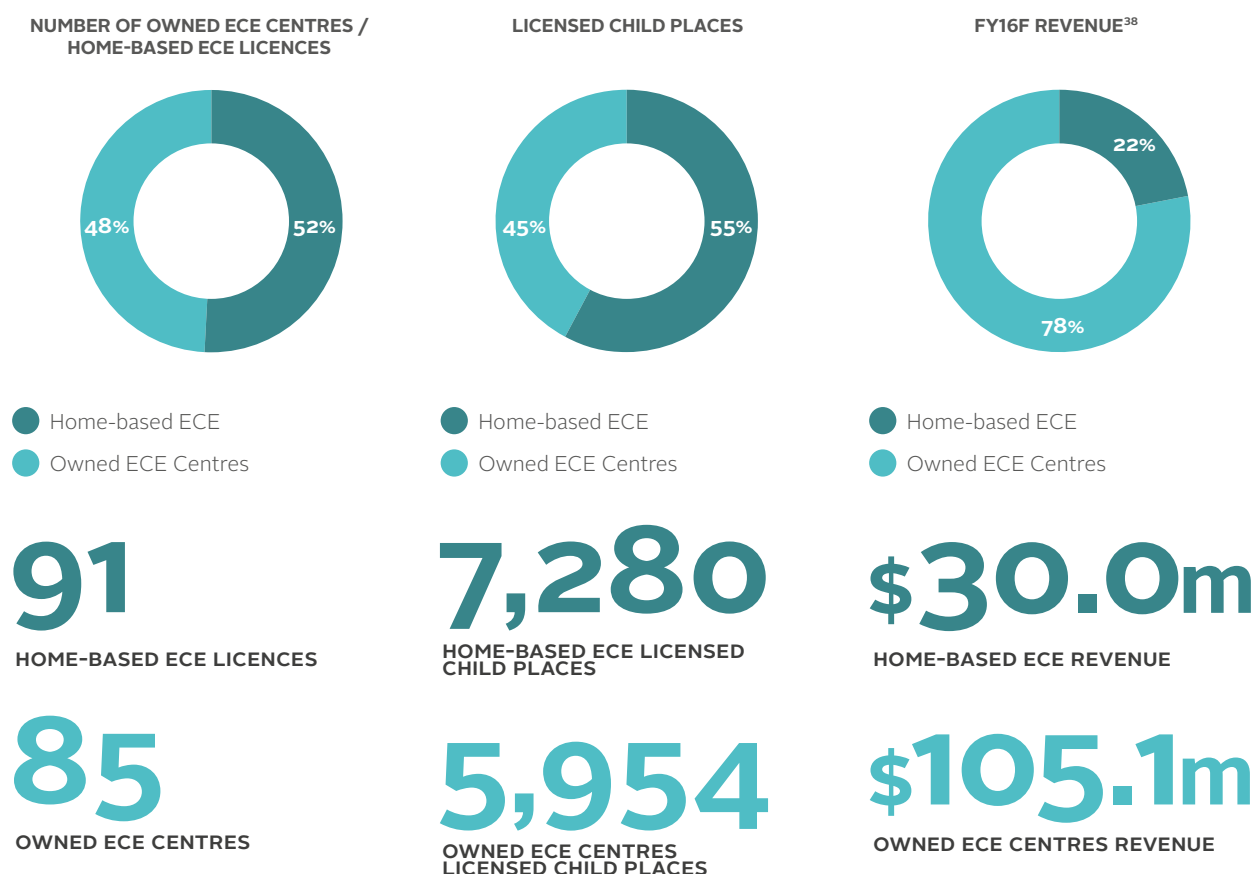
Nevertheless, Evolve Education currently intends that each

Owned ECE Centre will to the extent practicable retain its existing branding and trading name. Evolve Education intends to introduce its branding only at the corporate level, allowing the Owned ECE Centres to maintain their existing local presence and goodwill.

Following listing, it is expected Evolve Education Group's Initial Portfolio will have 85 licensed ECE Centres³⁶ and 91 Home-based Licences³⁷ across its ECE services.

This Initial Portfolio is presented below.

EVOLVE EDUCATION'S INITIAL PORTFOLIO



Source: Evolve Education

³⁶ Evolve Education will not own any freehold land.

³⁷ 76 of these Home-based Licences are held by PORSE. One Home-based Licence provides the ability to operate approximately 80 child places across a group of homes (typically 1- 4 children per home).

³⁸ Excludes approximately \$1.1 million of corporate revenue (commissions, consulting, courses and seminars, teacher registration, sundry income and web hosting) and management fees, franchise fees and royalties.



Overview of Lollipops Educare

Founded in 1997, Lollipops Educare has grown to become a recognised leader in New Zealand's ECE sector with nationwide operations. The Lollipops Educare ECE Centre at Auckland Airport was to be the first of 14 new centres licensed between 1997 and 2004.

In 2004, Mark Finlay and Russell Thompson (franchise owners themselves) purchased the business and have grown it to where it is today.

The original franchise concept of 'owner-operated community services under the support of a group umbrella' remains a core philosophy within the business.

Lollipops Educare offers modern purpose-built facilities, professional qualified staff and high staff to child ratios. All centres are required to provide nutritious meals – mostly from an in-house kitchen. In addition, all staff are supported with regular opportunities to attend professional development courses and in-house training. Across the 30 ECE Centres that Evolve Education will acquire, Lollipops Educare currently provides childcare and education to approximately 2,500 children nationwide and has approximately 750 staff.



Overview of PORSE

PORSE currently provides home-based care and education for over 5,000 children. PORSE also offers accredited training services.

With a strong focus on education and training, PORSE is committed to supporting individuals, families and communities by using the latest scientific research in early brain development and attachment theory to inform programme delivery and address education needs.

Founded in 1994, PORSE has developed from an initial programme to guide early childhood students providing education in family homes to be New Zealand's largest and longest serving Home-based ECE and training provider. PORSE has 240 staff working across 38 Community Teams across New Zealand, supported by a National Support Office based in Hawke's Bay.



For further information on Lollipops Educare and PORSE see Appendix 1 – *Historical Financial Information* of the Prospectus. For further information on the selection criteria used to select the ECE service providers that will comprise the Initial Portfolio see Section 5.3.1 *Establishment of a high quality portfolio*.

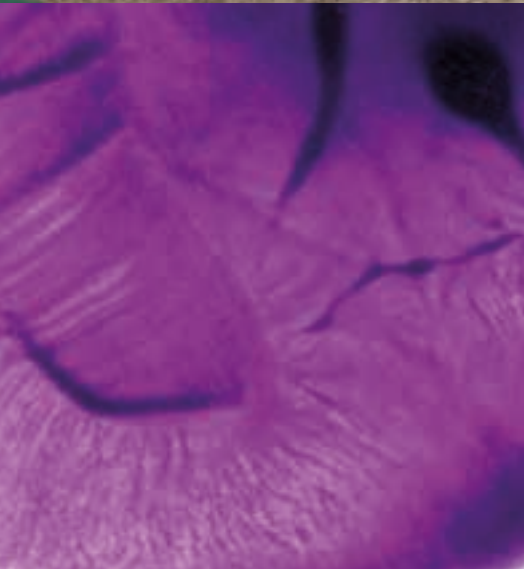
5.2 KEY DRIVERS OF PROFITABILITY

Key revenue drivers include the number of Licensed Child Places, child occupancy and Government and parent funding. The major expense drivers are employee expenses, followed by building occupancy expenses. These are summarised in further detail below:

Key drivers of profitability

	Owned ECE Centres	Home-based ECE
Revenue Drivers		
Licensed Child Places	<ul style="list-style-type: none"> Each ECE Centre has a specified number of child places that represents the regulatory limit on the number of children who can attend at any one time Total centre Licensed Child Places for Evolve Education will be primarily increased through acquisitions. However there is an opportunity to increase places at existing sites through optimisation of the built environment in some cases 	<ul style="list-style-type: none"> Home-based ECE Licences typically provide for 80 licensed places, which will be allocated across homes that typically take between 1 – 4 children each As demand for Home-based ECE increases, Evolve Education is able to apply for further Home-based Licences to expand the number of child places it can operate (providing suitable homes are available)
MOE Occupancy Percentage	<ul style="list-style-type: none"> Total number of Ministry of Education funded child hours attended, as a percentage of the maximum funded hours available (30 hours Ministry of Education funding limit x licensed capacity) Occupancy is impacted by a range of factors including amount of Ministry of Education funding, quality of service, competition factors and economic factors 	<ul style="list-style-type: none"> Not applicable
Funding	<ul style="list-style-type: none"> Key sources of revenue are: <ul style="list-style-type: none"> Ministry of Education funding, received three times a year with 75% in advance Revenue received from parents The number of educators is important to receiving Government funding. An operator must have over 50% of educators as registered teachers to receive funding The level of funding increases if the ratio of registered teachers is over 80%. During the Prospective Period, Evolve Education expects to have a Qualified Teacher Ratio of above 80% for each of its ECE Centres Minimum adult-to-child ratio for ECE Centres vary depending on the ages and number of children but is typically 1:5 for under 2 years old and 1:10 for over 2 years old 	<ul style="list-style-type: none"> Each Educator can look after four children under the age of six
Expense Drivers		
Employee expenses	<ul style="list-style-type: none"> Employee expenses are the largest expense Important to retain qualified teachers and staff, who are integral to providing high quality services to the children 	<ul style="list-style-type: none"> Employee expenses are the largest expense The educator is contracted by the parent and the coordinator (registered teacher responsible for validating outcomes) is contracted by Evolve Education
Building occupancy expenses	<ul style="list-style-type: none"> As Evolve Education will not own any land underlying its Owned ECE Centres, property lease expenditure will represent the second largest expense item Evolve Education's leases vary, but the term of the majority of leases will be for approximately 15 years or more (including rights of renewal)³⁹ All of the leases are subject to regular price (rent) reviews. Typically, the rent will be subject to review annually or bi-annually to the Consumer Price Index and/or market rent reviews at longer intervals The premises will be leased from a variety of owners, typically individual operators and family trusts 	<ul style="list-style-type: none"> Regional centre building occupancy expense
Other	<ul style="list-style-type: none"> Governance costs, central office, consumables, insurance, marketing, travel and motor vehicle expenses 	<ul style="list-style-type: none"> Regional centre costs, training educators, governance costs, consumables, insurance, marketing, travel and motor vehicle expenses

³⁹ The terms and conditions of each Evolve Education lease also vary, but typically the leases take the Auckland District Law Society standard form with some amendments in each case. As at the date of this Investment Statement, the remaining term of the leases of the Owned ECE Centres where due diligence has been conducted (excluding any early or short-notice termination rights) is as follows (expressed as a percentage of the Owned ECE Centres where due diligence has been conducted) – approximately 1% 0-5 years, 12% 5-10 years, 22% 10-15 years, 30% 15-20 years, and 35% 20+ years. For leases of the Owned ECE Centres that are due to expire in less than 15 years, Evolve Education intends to seek the landlord's agreement to add further rights of renewal (or extend the term) up to a minimum of 15 years at the time it seeks the landlord's consent to the assignment of the lease, though any such agreement is at the landlord's sole and absolute discretion.

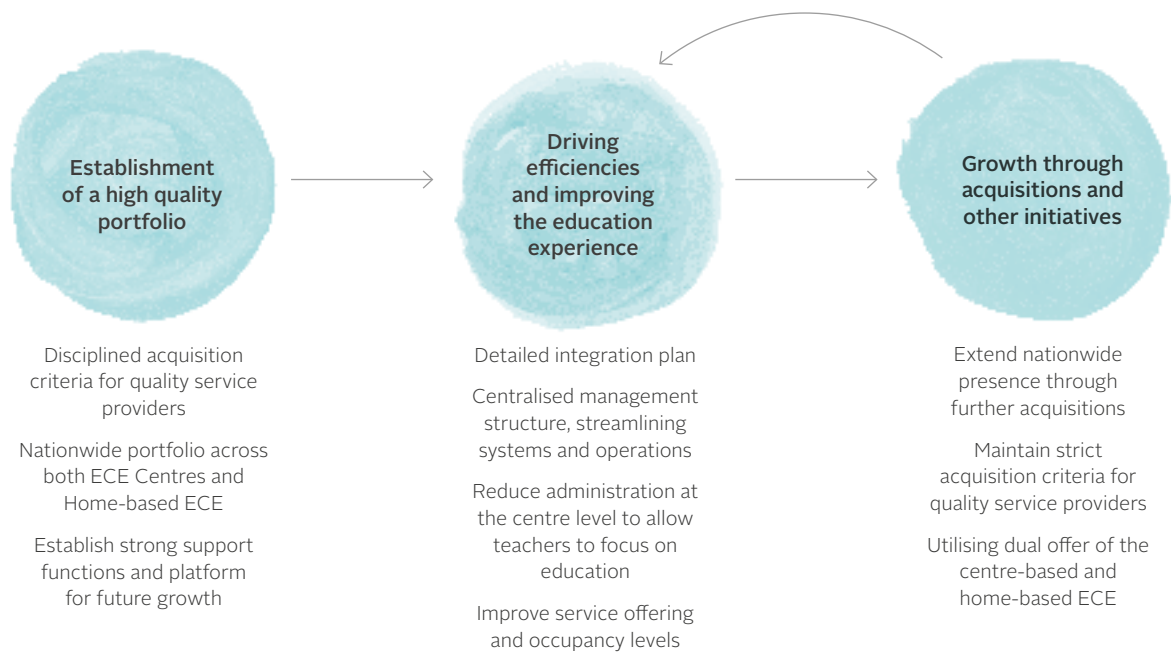


5.3 BUSINESS MODEL

Evolve Education’s business model is focused on achieving efficiencies through the consolidation of ECE services into a quality operational platform.

The model is focused on three key aspects:

EVOLVE EDUCATION BUSINESS MODEL



Management consider this to be the appropriate model to capitalise on the inefficiencies present in the existing highly fragmented market. Management consider that driving efficiencies and improving the overall education experience provided by Evolve Education's services, coupled with the management capability and capital capacity to pursue acquisitions, will provide a platform for growth.

Each of the three key business model aspects are explained in further detail in the following sections.

5.3.1 ESTABLISHMENT OF A HIGH QUALITY PORTFOLIO

This section summarises the process Evolve Education has implemented to establish its Initial Portfolio, the key operating metrics and statistics of the Initial Portfolio, and the key drivers of profitability for the Initial Portfolio.

Initial Portfolio selection process

A disciplined approach has been undertaken to select the ECE service providers that will comprise the Initial Portfolio, which includes applying a set acquisition criteria to the possible targets, due diligence and site visits.

ECE CENTRE SELECTION AND ACQUISITION PROCESS

Selection	ECE Centres are selected based on a number of factors including but not limited to: profitability, location, physical environment, capability of staff, occupancy, quality of Educational Review Office (ERO) reporting and other operational metrics.
Review	Extensive review of each ECE Centre is undertaken to confirm the performance of the business against the key acquisition criteria. The decision is then made to proceed to offer to purchase or decline.
Negotiation	Offers are made and terms and conditions agreed in principle. Contract negotiation is undertaken to agree terms and conditions between both parties.
Due Diligence	A period of due diligence is completed to review operational, financial and legal aspects of each business prior to accepting, renegotiating or declining the acquisition. Once due diligence is complete, acquisitions remain subject to finance and other conditions that need to be satisfied prior to settlement.
Initial Portfolio Acquired	Transactions are settled and added to the Evolve Education Initial Portfolio. This process will be occurring in the weeks following listing.

Key acquisition criteria

The key criteria for selection of ECE Centres is an integral step in the acquisition process and forms the basis for being able to evaluate the potential acquisition targets for suitability. The table below sets out the five key acquisition criteria that Evolve Education has considered or will consider in its portfolio selection. Judgement is applied to the relative importance placed on each of these criteria, depending on the particular centre characteristics.

Criteria	ECE Centres
Profitability	Efficient and profitable operations that can be maintained and improved through Evolve Education management
Location	Locations with high demand for ECE services and areas with future growth opportunity Targeted areas to create efficiency through operational clusters of ECE Centres throughout New Zealand
Physical environment	Generally targeted purpose built or recently renovated premises These well-maintained facilities offer a nurturing environment for children and generally limited capital expenditure upon acquisition
Capability of staff	All acquisitions include educational teams achieving the 80%+ registered teacher funding ratio Educators are qualified and relate well to parents, children and the wider community
Occupancy	Occupancy levels are consistently at high levels, indicating customer satisfaction and demand for the quality of service being offered

In addition to the profitability, occupancy and capability of staff criteria discussed above, the following criteria were also used to select key Home-based ECE services:

- Larger organisations with more than 500 children in the network; and
- Well-developed operational systems in place.

Due diligence process

The due diligence phase is a very important part of the acquisition process. Due diligence is where Evolve Education seeks to determine the suitability of each business for inclusion in the Initial Portfolio. Evolve Education has conducted a robust and detailed diligence process covering operational, financial and legal aspects of each acquisition.

Further details regarding the due diligence process that Evolve Education has undertaken in relation to the Initial Portfolio are set out in Section 4.2 *Business Description* in the Prospectus. Specific risks relating to the Initial Portfolio, including relating to due diligence are set out in Section 7 *What are my Risks?*

Key operating metrics and statistics

Evolve Education Group has contracted to acquire 85 Owned ECE Centres and 91 Home-based Licences as shown in the table below.

Summary of Initial Portfolio

	ECE SERVICES			
	Owned ECE Centres	Home-based ECE	Other	Total Evolve Education
FY16F Revenue	\$105.1m	\$30.0m	\$1.1m ⁴⁰	\$136.2m
FY16F EBITDA	\$27.5m	\$3.0m	\$(4.8m) ⁴¹	\$25.7m
Number of Owned ECE Centres / Home-based Licences	85	91	–	176
Number of Licensed Child Places	5,954	7,280	–	13,234
FY16F MOE occupancy ⁴²	87.0%	NA	–	NA
Employee expenses ratio ⁴³	52.5%	44.9%	–	53.2% ⁴⁴
Building occupancy expenses ratio ⁴⁵	13.3%	6.3%	–	11.8%

⁴⁰ Includes corporate revenue (commissions, consulting, courses and seminars, teacher registration, sundry income and web hosting) and management fees, franchise fees and royalties.

⁴¹ Includes corporate and head office expenses including corporate salaries and wages, advertising, insurance, training and governance expenses.

⁴² This occupancy comprises forecasts for both mature ECE Centres and ECE Centres that are not mature. The occupancy for FY16F is based on historical experience, supplemented by a centre-by-centre analysis conducted by Evolve Education.

⁴³ Employee expenses / revenue.

⁴⁴ Includes corporate and head office employee expenses.

⁴⁵ Building occupancy expenses / revenue.



5.3.2 DRIVING EFFICIENCIES AND IMPROVING THE EDUCATION EXPERIENCE

Management's focus will initially be on integration and ensuring effective management where owner-operators were actively managing their business prior to being acquired by Evolve Education. Management will ensure that the appropriate oversight and resources are allocated to these centres to maintain operating performance in the absence of the previous owner-operator, who may have been the key centre manager.

Alan Wham and Vivek Singh have significant integration experience in their previous roles in Pharmacybrands Limited (now Green Cross Health) where they worked on a consolidation strategy of the health services sector through mergers and acquisitions. Greg Kern, Director, will be available to assist management with the integration process given his in-depth experience in integrating ECE services through his previous experience in the listing of Affinity Education Group Limited in Australia.

On a portfolio basis, management consider significant efficiency improvements can be made, primarily in the form of:

- Implementation of a corporate structure to support the overall management of the Initial Portfolio;
- Streamlining administration and compliance reporting so that educators have more time to focus on providing a quality service to their children;
- Streamlining core systems to enable efficient operation of the Owned ECE Centres;
- Potential consolidation of suppliers across the Owned ECE Centres; and
- Utilising dual offer of the centre-based and home-based ECE.

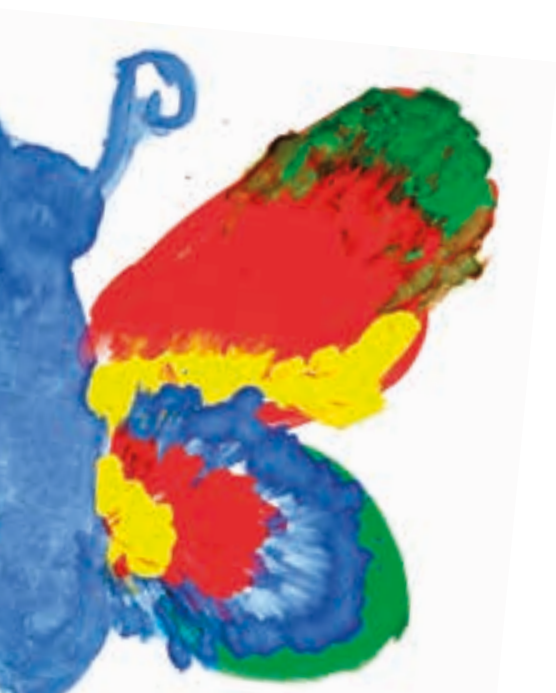
To optimise the integration process, Evolve Education, in conjunction with its advisers, has formulated a detailed step-by-step plan for the integration of the Owned ECE Centres focused on the key elements of activity management, human resources, systems, change and communications management, and finance and operations.

Management is aware of the complexities surrounding this integration and consider that protecting revenue, managing costs (including meeting staff payments) and communicating with stakeholders in a coordinated and consistent way, are essential. The integration of the Owned ECE Centres should have minimal impact on the day-to-day operations of the individual centres and the centres continuing to operate under existing branding and trading names.

The key focus of the integration process will be to see that the overall service quality provided by Evolve Education to its children is of a high standard. Management considers this to be the most important factor to facilitate organic growth in the business.

By 31 March 2015, Evolve Education's management expects integration of the Initial Portfolio will be substantially complete to a level satisfactory to the Board, which is intended to include achieving stabilised earnings evidenced by consistency of weekly actual performance versus forecasts, and on time and on-budget delivery of the integration programme.

However, there are risks relating to the integration of the Initial Portfolio which are set out in more detail in Section 7 *What are my Risks?*



Corporate structure

After listing, Evolve Education will operate a tiered management structure. At the corporate level, the business will be responsible for providing centralised executive management and shared services. Responsibility for the day-to-day running of individual centres will be delegated to centre managers with oversight provided by regional business managers.

Existing Lollipops Educare staff will be augmented to provide the infrastructure to manage the additional centres.

Management is currently undertaking a process of finding and filling outstanding positions to supplement the key executives and support teams of Lollipops Educare and PORSE. A number of these positions are in the process of being filled.

CORPORATE STRUCTURE

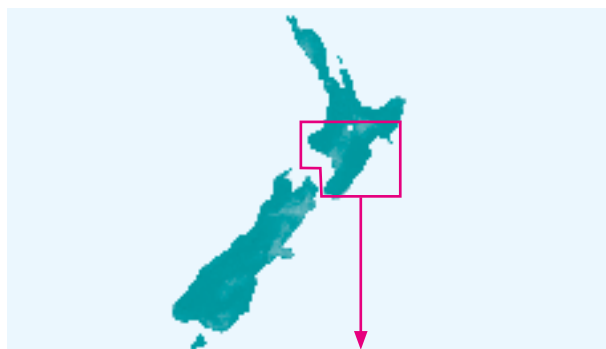
CORPORATE

Comprised of executive management who are expected to achieve economies of scale through the centralisation of shared services and administration functions

Key responsibilities:

- Group-wide education programmes
- Common policies and procedures
- Centralised staff development and training
- Centralised IT systems
- Common procurement policies

CORPORATE STRUCTURE APPLIED ACROSS INITIAL PORTFOLIO



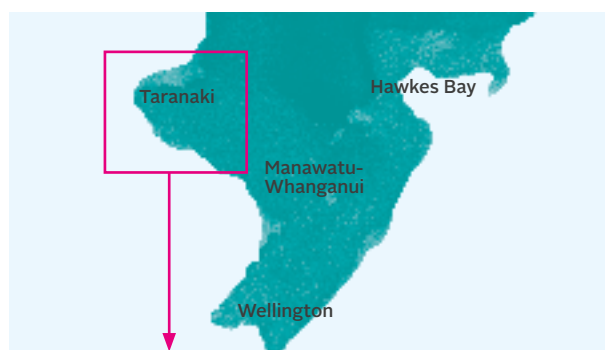
REGIONAL

Regional Business Manager will have responsibility for centres that are grouped into geographic clusters

Key responsibilities:

- Regional Business Managers report to executive management
- Centre management across region
- Maximising centre performance through occupancy and other key indicators

REGIONAL BUSINESS MANAGERS OVERSIGHT REGIONAL CLUSTERS



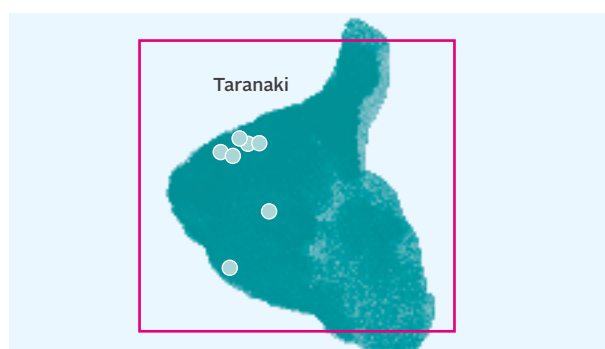
CENTRE LEVEL

Centre managers will be responsible for day-to-day centre management. Successful implementation of corporate level functions will allow individual centres to focus on providing quality ECE

Key responsibilities:

- Provide a quality ECE service
- Achieved by employing fully qualified early childhood educators and utilising development and training
- Lead ECE Centre performance and parent satisfaction

CENTRE DIRECTORS RESPONSIBLE FOR SPECIFIC SITES



Management believes there are likely to be significant benefits from operating a centralised management structure. These are expected to include:

- The ability to roll out “best practice” guidelines across the Evolve Education Group. For example this includes ensuring there is a well-presented and functional built environment, provision of quality educational equipment and resources, instant and targeted performance reporting information, competent and professional centre management and excellent internal professional development programmes for both management and teaching staff. Management also consider relationships with families built on trust and wanting the best for the children are very important;
- Targeted capital expenditure investment programmes to maintain or improve the current operating environment, which is essential to maintain and grow occupancy levels;
- Group compliance programmes within a portfolio of ECE Centres allowing sharing of costs and planning;
- An Education Advisory Committee to oversee the quality and implementation of the educational programmes across Evolve Education services. Jenny Yule, the PORSE CEO will head this committee, which will report directly to the Board;
- Procurement synergies through economies of scale with a larger portfolio of centres able to source goods and

services at better rates than smaller operators. Together with added sophistication to supply chain management and better information and negotiation capabilities, Evolve Education will seek to deliver benefits that smaller operators would likely find difficult to replicate;

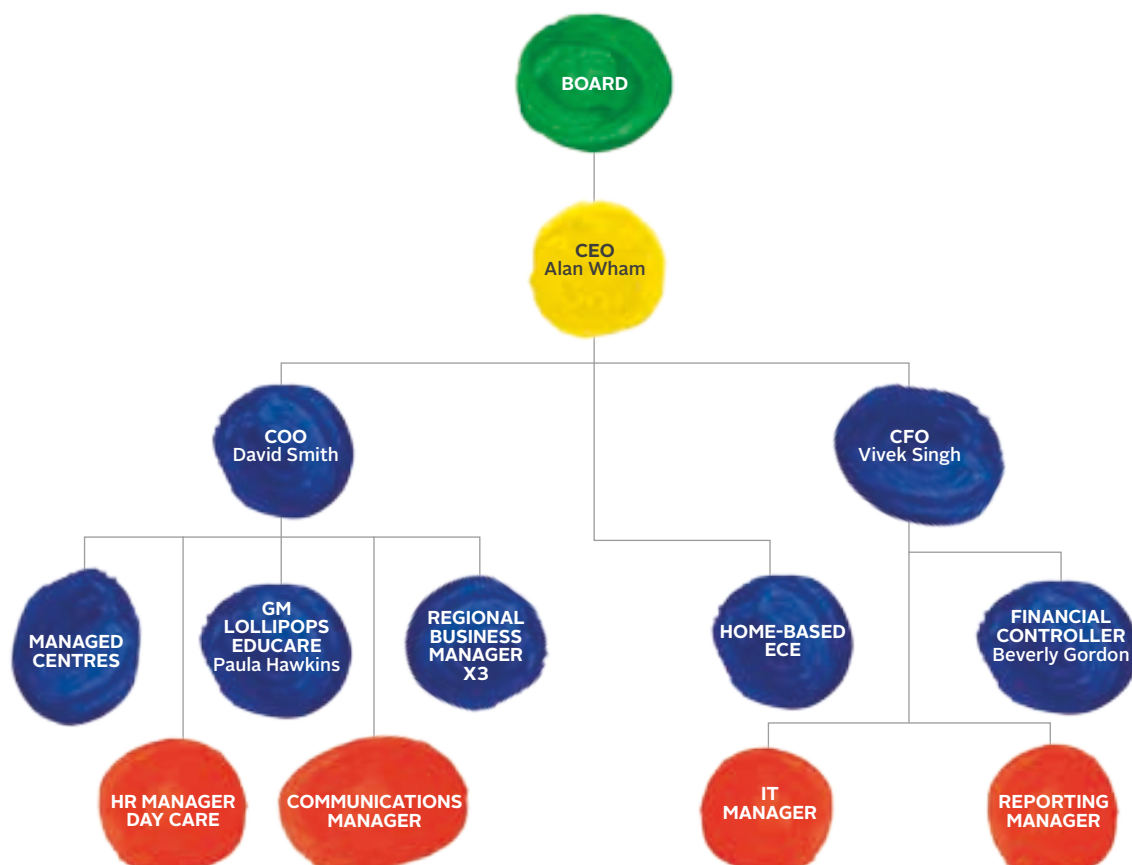
- An improved platform for geographic clusters which can benefit through rostering and optimising qualified teachers; and
- Increased staff retention through a larger portfolio of centres able to provide improved career path training and progression, with increased vocational options across multiple centres.

PORSE

In addition to the corporate structure that will be rolled out across Evolve Education, key management from PORSE will have continued involvement with their business following listing.

Jenny Yule, the founder of PORSE, will continue to operate the business as CEO of PORSE under a fixed term contract through to at least 31 December 2015. PORSE has an experienced management team based in Hawke’s Bay that will continue to manage the business for this period. Evolve Education expects that the PORSE business will be carried on in a manner similar to its recent operations under an agreed business plan, with oversight from Evolve Education’s appointees to the board of PORSE.

GROUP STRUCTURE DIAGRAM



5.3.3 GROWTH THROUGH ACQUISITIONS AND OTHER INITIATIVES

Following listing, Evolve Education considers it will have the management capability and capital capacity to pursue a range of growth initiatives. These initiatives will focus on both organic growth (optimising the performance of the Initial Portfolio) and acquisition growth (from the acquisition and integration of additional ECE services). The Prospective Financial Information does not reflect the earnings impact of any potential acquisitions. Given the uncertainty of potential acquisitions and any associated earnings effects, Evolve Education has been conservative in excluding these from its forecasts.

Organic growth

Evolve Education will look to leverage the strength of its management team and corporate structure to drive occupancy growth, rate per day increases and the management of expenses in the Initial Portfolio. Specific initiatives to drive this are intended to include:

- Targeted marketing efforts;
- Widening its existing service offering to include before and after school care and vacation care, where not already provided;
- Improving quality of services by establishing an education panel and advanced training for staff;
- Cost optimisation through the implementation of the corporate structure and focus from the experienced management team; and
- Utilising dual offer of the centre-based and home-based ECE.

The Home-based ECE market is a particular area of focus for Evolve Education as this sector is experiencing the highest growth with enrolment growth at 6% per annum since 2000⁴⁶.

With 20 years of experience in pioneering the home-based childcare and training market in New Zealand, PORSE has recently fielded interest from a number of Australian childcare providers, associations and Government representatives who are eager to look at how the home care model could be applied to early childhood learning and care in Australia. While Evolve Education is not actively looking to expand these services into Australia at this stage, this may present a future opportunity for the business.

Acquisition growth

Evolve Education intends to continue to grow the size of its portfolio through the acquisition of additional ECE service providers. The acquisition selection process will be conducted in a similar way to the acquisition process for establishment of the Initial Portfolio (see Section 5.3.1 *Establishment of a high quality portfolio*) and will be supported by a capital management plan.

Evolve Education's acquisition growth strategy will primarily focus on the acquisition of existing ECE Centres. This is because Evolve Education currently believes there is significant value to be harnessed through the acquisition of other ECE service providers which does not expose Evolve Education to the risk of new ECE Centre developments.

Through contract negotiations during the Initial Portfolio acquisition process, Evolve Education has been able to obtain a right of first refusal to purchase further ECE Centres from approximately 20% of the vendors of the Initial Portfolio. These comprise a mix of established centres owned by the vendors and new developments that the vendors have planned for the future.

Evolve Education's acquisition growth strategy will continue to focus on building clusters for efficiency and ECE services that meet the requirements of the community, including sessional and full day care. Evolve Education intends to work strategically with partners to target areas of interest to continue to build a portfolio of purpose-built centres in prime locations throughout New Zealand to meet the demand of each community.

In addition, Evolve Education intends to establish and maintain a new ECE Centre development pipeline through the provision of intellectual property licences to selected ECE Centre developers throughout New Zealand, whereby those developers can use Evolve Education's brands and other intellectual property rights in relation to the development of new ECE Centres. Intellectual property licence holders will be required to offer to sell these ECE Centres to Evolve Education upon agreed child occupancy levels being reached. On completion of the Lollipops Educare Acquisition, Evolve Education will enter into such an arrangement with LEP Limited (LEP Limited is currently a company owned by Lollipops Educare but will not form part of the Lollipops Educare Acquisition) and certain of its related companies.

⁴⁶ Source: Ministry of Education, Education Counts – Enrolments in ECE. Data as at June 2013, last updated March 2014.

Capital Management Strategy

Evolve Education has developed a detailed capital management plan to support its growth strategy.

Evolve Education will have three sources of funding in place:

Senior revolving facility for general corporate and working capital purposes. A draw under this facility will be used to fund part of the consideration for the Initial Portfolio	\$30M
Acquisition facility to provide funding for future acquisitions	\$60M
Lease guarantee facility for bonds required for certain leasehold properties	\$3M

Evolve Education will have approximately \$20 million drawn down on the senior revolving facility upon listing, while the acquisition facility and Lease guarantee facility will be undrawn.

Evolve Education considers this debt position will provide adequate capacity to fund future acquisitions. However, Evolve Education considers Net Debt to be a better reflection of the Company's leverage, which is expected to be \$9.5 million based on the FY15F period.

Evolve Education intends to maintain a core debt facility of approximately 1.0x EBITDA and has a policy of funding acquisitions with debt subject to not exceeding a gross debt / EBITDA of 2.0x.

5.4 INTERNAL RISK MITIGATION PROCEDURES

Evolve Education has a comprehensive range of internal risk mitigation procedures in place for the protection of children and staff and ensuring operational efficiency in line with best practices. A specific range of risk mitigation procedures that it intends to implement, which will assist building a powerful brand identity include:

- Best practice guidelines which will assist in building a high quality ECE offering across all centres;
- Child protection policies;
- Long-term commercially appropriate occupancy agreements;
- Current Building Warrants of Fitness, Codes of Compliance and Fire Reports;
- Ministry of Education Licence Certificates;
- A strong mix of fully qualified and registered staff; and
- Full health and safety reporting standards.



BOARD AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Evolve Education has an experienced and balanced Board with a diverse range of skills, including industry and business knowledge, financial management and corporate governance experience. The Board currently comprises an independent Chairperson, one independent non-executive Director, one non-executive Director and two executive Directors.

1. NORAH BARLOW

Chairperson (Independent)

BCA, CA

Norah was previously the CEO of Summerset Group Holdings Limited for 12 years and retired from the role in April 2014, but remains as a non-executive Director. She is an accountant by profession, operating her own partnership for a number of years, prior to becoming the Group Accountant, and then CEO of Summerset Group. Summerset is a large developer and operator of retirement villages, and aged care, and is listed on both the NZX and ASX.

Norah now holds a number of directorships, including Cigna Life Insurance New Zealand Limited, Cooks Global Foods Limited and Ingenia Communities Limited in Australia. She is also a Ministerial appointee to the National Advisory Council for the Employment of Women. In 2014 she was awarded an ONZM for services to business.

2. MARK FINLAY

Executive Director (Non-Independent)

BEd

Mark has 13 years experience in New Zealand early childhood education. He was a founder and Managing Director of the Lollipops Educare Group. Lollipops Educare is a respected ECE provider in New Zealand having developed and managed more than 40 ECE Centres over the past decade. Mark brings in-depth operational experience in the ECE services industry to the Board.

Mark Finlay is also a director and indirect shareholder of LEP Limited, a company that will be the landlord (and owner of the freehold title) of Evolve Education's head office at Level 2, 54 Fort Street, Auckland, four of the Lollipops Educare Owned ECE Centres and three of the Additional Owned ECE Centres. LEP Limited and certain of its related companies will also be granted a licence to use the Lollipops brands on completion of the Lollipops Educare Acquisition Agreement. Further details of these arrangements and other arrangements between LEP Limited and Evolve Education are set out in Section 10 *Statutory Information* of the Prospectus under the heading "Interested Persons".

3. GREG KERN

Non-Executive Director (Non-Independent)

BCom, GradDip in Applied Finance and Investment, CA

Greg is the managing director of Kern Group, a corporate advisory firm based in Queensland, Australia. Greg is a chartered accountant, a registered company auditor, a member of the Institute of Internal Auditors and the Australian Institute of Company Directors. Kern Group acted as the lead adviser of the successful listing of Affinity Education Group Limited in Australia. Greg was a promoter of the listing of Affinity Education Group Limited.

4. ALISTAIR RYAN

Non-Executive Director (Independent)

MCom, CA

Alistair is an experienced company director and corporate executive. He is a professional company director, currently chairman of NZX-listed investment companies Kingfish Limited, Barramundi Limited and Marlin Global Limited, a director and audit and risk committee chair of listed companies Metlifecare Limited and Moa Group Limited, a board member and chair of the audit and risk committee of the New Zealand Racing Board, and a director of private companies Christchurch Casinos Limited and Lewis Road Creamery Limited. Alistair is also a member of the FMA-appointed Auditor Regulation Advisory Group.

Alistair retired from NZX and ASX-listed SKYCITY Entertainment Group Limited as Chief Financial Officer in June 2011 after a 16-year career with the company, since just prior to its opening and stock exchange listing in February 1996.

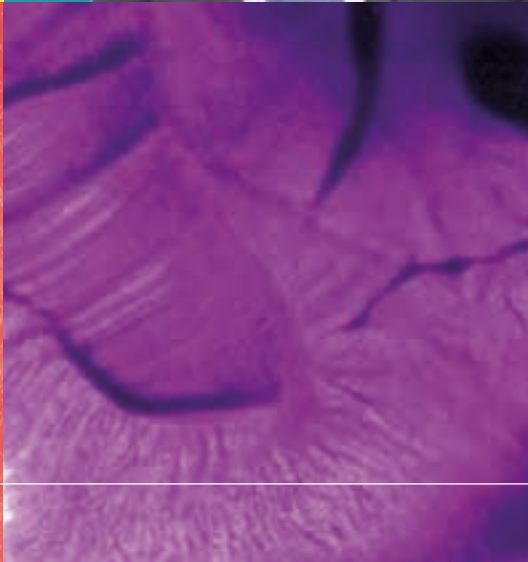
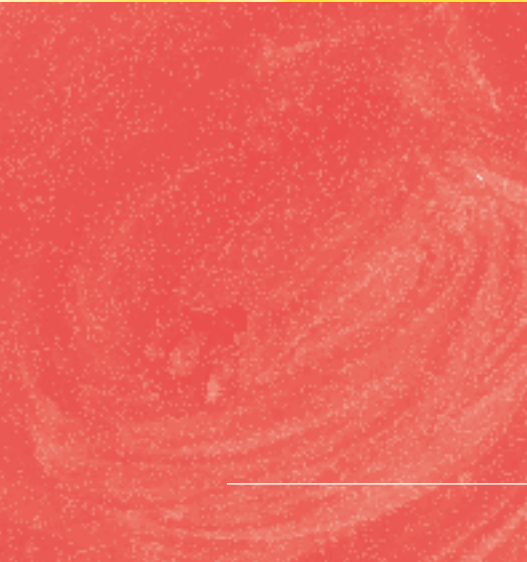
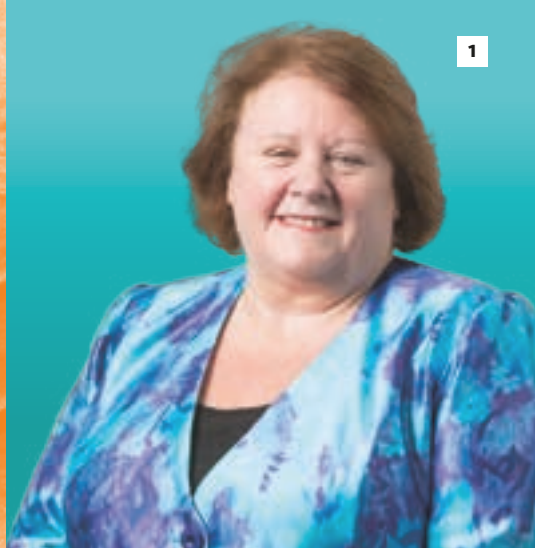
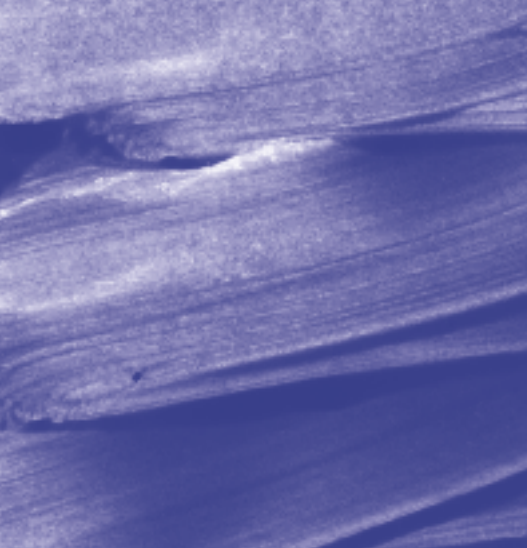
5. ALAN WHAM

Chief Executive Officer (Non-Independent)

BPharm

Alan was appointed as Chief Executive Officer of Evolve Education with effect from 1 September 2014. Alan was CEO of Pharmacybrands Limited (now Green Cross Health Limited) from late 2003 to mid 2013. The Pharmacybrands business was transformed during this period from a small pharmacy services company to a NZX-listed company with a market capitalisation of approximately \$200 million. This was achieved by sector consolidation through mergers and acquisitions, raising capital via existing shareholders, delivering significant synergies and enhancing the performance of pharmacy and medical centre acquisitions. Alan was a director of a large number of subsidiary and joint venture companies within the Pharmacybrands group and built strong relationships across the sector.

Since mid 2013 Alan has been active in governance and advisory roles across the broader health arena, including roles in the governance group for the Community Pharmacy Services Agreement, SimpliHealth, The Ultimate Care Group Limited and Southern Clinical Trials Group Limited. Alan's early career spanned 15 years in senior executive positions with 3M in New Zealand, the United Kingdom and Australia. He was Managing Director for 3M Pharma in Australia and Regional Director for Asia Pacific and Africa before returning to New Zealand in late 2003.



SENIOR MANAGEMENT TEAM

Evolve Education's senior management team will comprise a Chief Executive Officer, a Chief Financial Officer, a Chief Operating Officer, an Executive Director, a General Manager Lollipops, a Financial Controller and a CEO PORSE.

1. ALAN WHAM

Chief Executive Officer

See Alan's full biography under the heading "Board of Directors".

2. VIVEK SINGH

Chief Financial Officer and Company Secretary

CA (NZ), CA (India), Grad ICWA (India) and BCom, Mumbai University

Vivek was appointed as Chief Financial Officer of Evolve Education on 1 September 2014. Prior to joining Evolve Education, Vivek was CFO of Pharmacybrands Limited (now Green Cross Health Limited). Vivek has also been CFO and Company Secretary of Radius Security Limited and Evergreen Forests Limited. He has also worked in various finance roles with Repco in New Zealand, Affco New Zealand Limited and Enerco New Zealand Limited. Prior to moving into commerce and industry, Vivek was a Senior Manager at KPMG in Auckland.

Vivek's experience includes acquisitions and mergers, integration of acquired businesses, change management, group financial reporting, group tax management, capital and debt raising, and treasury and money market management.

Vivek is a member of Chartered Accountants Australia and New Zealand and The Institute of Chartered Accountants of India. He is also a graduate member of the Institute of Cost and Works Accountants of India. Vivek completed his Bachelor of Commerce at the Sydenham College of Commerce and Economics, Mumbai University, India.

3. DAVID SMITH

Chief Operating Officer

David was appointed Chief Operating Officer of Evolve Education with effect from 16 September 2014. David has for the last 20 years held several senior management roles in the manufacturing, food, importing/exporting, service and more recently the childcare industry. Before joining Evolve Education, David was a Regional Manager for four years for Kidicorp Education and Care Centres, the largest provider of early childcare education in New Zealand. In this capacity he had financial and operational responsibility for 70 ECE Centres.

David's previous management roles include being a Regional Manager for Compass Group PLC. Prior to that David held two senior leadership roles with Chubb Security, initially as their Auckland Manager and then as the General Manager of a start-up business, Key Hardware, a subsidiary importing, wholesaling and manufacturing business.

4. MARK FINLAY

Executive Director

See Mark's full biography under the heading "Board of Directors".

5. BEVERLEY GORDON

Financial Controller

Bachelor of Business

Beverley has spent the last four years as the Financial Controller of the Lollipops Educare Group. During this time she has implemented an Enterprise Resource Planning consolidated computer system and IFRS reporting standards across the group.

Prior to that Beverley spent several years as the Financial Controller for Two Degrees Mobile, the third largest mobile operator in New Zealand. During this time Two Degrees launched in the New Zealand market, and Beverley implemented the integration with Oracle of the recharge platform for prepaid and post paid billing systems. Prior to this Beverley spent 16 years with TVNZ, as Finance Manager for areas such as Technology, Emerging Business, Marketing and Public Relations.

Beverley is a member of Chartered Accountants Australia and New Zealand.

6. PAULA HAWKINGS

General Manager Lollipops

Diploma of Teaching

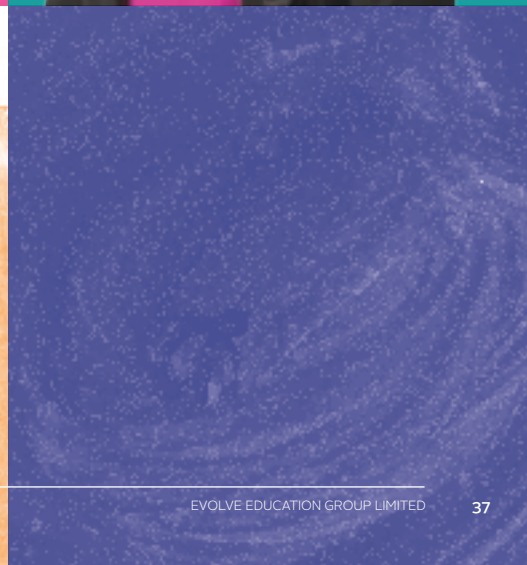
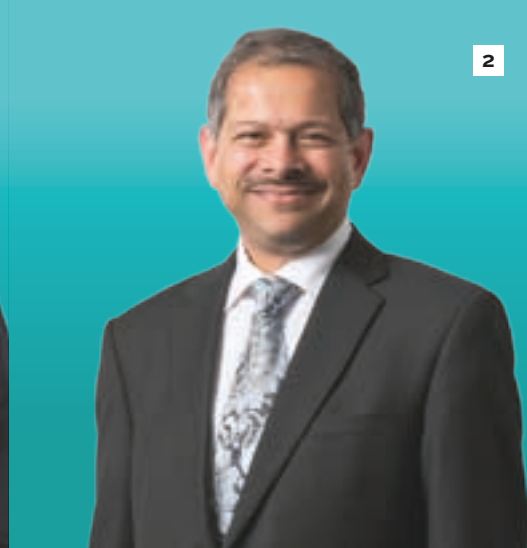
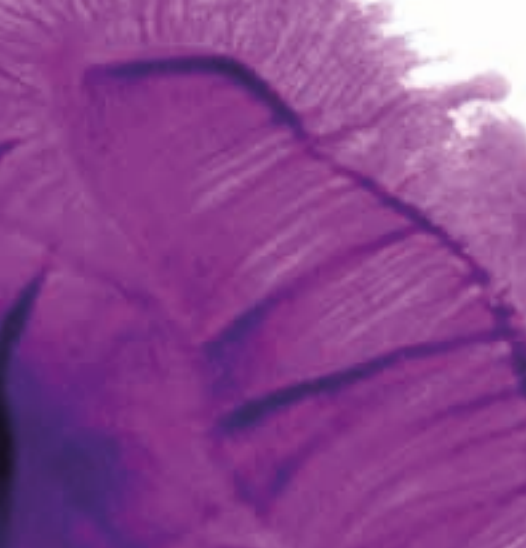
For the past 11 years Paula has worked in the position of Operations Manager for Lollipops Educare. As a mother of three children, two of whom having been through Lollipops Educare, Paula has a range of skills from understanding the needs of children and managing the day-to-day operations of centres and the Ministry of Education requirements.

7. JENNY YULE

CEO PORSE

BEd, Diploma in Teaching

Jenny founded the PORSE Group in 1994 and is currently the CEO. Jenny is the President of HELO (Home Early Learning Organisation) and sits on a number of national advisory and governance groups – New Zealand Teachers Council ECE Advisory Group, Education Review Office External Reference Group, NZQA review of ECE qualification's levels 1-6, Ministry of Education Home-Based Early Childhood Advisory Group and the Royston Hospital Trust Board in Hawke's Bay.





SECTION 7

WHAT ARE MY RISKS?

Your Shares will be fully paid and you will have no liability to make any further payments in respect of your Shares. However, the principal risk is that you may not be able to recoup your original investment or you may not receive the returns you expect. This could happen for a number of reasons, including that:

- the price at which you are able to sell your Shares is less than the price paid for them;
- an inability to sell your Shares at all – for instance, because the market for them does not develop, becomes illiquid or ceases to exist;
- Evolve Education does not perform as expected, and as a result, may not be in a position to pay dividends;
- the operational and financial performance of Evolve Education is not as strong as expected; or
- Evolve Education becomes insolvent and is placed in receivership, liquidation or voluntary administration.

Any investment in the share market has risks associated with it, and this investment is no exception. A number of the key risks that are specific for Evolve Education are set out below.

You should also read Section 5 *Risks in the Prospectus* which provides a full description of the risks that may affect Evolve Education and have an impact on your investment.

These risks, were they to occur, could have a material adverse effect on Evolve Education's financial position or performance through reduced revenue, increased costs, reduced cash flows, a decrease in occupancy, damage to reputation or a combination of these.

You should consider such risk factors together with the other information in this Investment Statement. In particular, you should read Section 5 *Business Description*, Section 6 *Board and Senior Management* and Section 8 *Overview of Financial Information*.

Evolve Education has identified the following key risks that investors should pay particular attention to:

- **Regulatory risks** – Changes to Government funding;
- **Risks relating to the Initial Portfolio** – Integration risks;
- **Operational risks** – Reputation risk; and
- **Personnel risks.**

Each of these risks is summarised below as the first risk under the relevant headings. Other key risks that investors should consider are also summarised below. The assessments made by Evolve Education in this section are its current assessments made on the basis of information available to it as at the date of this Investment Statement. These risks may change over time, and they may not be all the key risks that Evolve Education may face in the future.

REGULATORY RISKS

Changes to Government funding

The Government provides substantial assistance to the ECE industry through the ECE Funding Subsidy and 20 Hours ECE. This funding is currently utilised in the operations of the Initial Portfolio and will represent a significant proportion of Evolve Education's revenues. This funding is subject to review at any time by the Government. In addition, the Government can at any time change the regulations that need to be complied with in order to obtain this funding. Any reduction in the level of this funding, a reallocation of this funding between ECE services or if the level of funding does not increase as assumed in the Prospective Financial Information or in line with the rate of inflation (which would have the effect of increasing Evolve Education's costs) and Evolve Education cannot otherwise increase the fees that it charges to parents and caregivers to reflect this increase in costs, then this would have a material effect on Evolve Education's profitability. Evolve Education may not be able to increase the fees that it charges to parents or caregivers due to regulations or market-driven events or circumstances, such as competition from other ECE service providers. The imposition of more onerous regulations with which Evolve Education may need to comply in order to obtain government funding, and any associated costs of complying with those regulations may also have an effect on Evolve Education's profitability. Evolve Education is not currently aware of any significant changes that are proposed to Government funding for the ECE industry. However, given Government funding will represent a significant proportion of Evolve Education's revenues, even a small change in the level of funding or the allocation of funding, or any failure to increase funding as assumed in the Prospective Financial Information in a situation where fees charged to parents and caregivers could not be increased, would have a material adverse effect on Evolve Education's profitability.

Review of Home-based ECE

A review of Home-based ECE services was announced in September 2012 and was cancelled in July 2013. The Ministry of Education has indicated that a review of Home-based ECE will be reconsidered after the implementation of the Early Learning Information System (a new online method of managing funding in the ECE industry) and the annual ECE Funding System Review in 2015. The Ministry of Education has stated that it believes that many of the funding, transparency and quality concerns that gave rise to the proposed review of Home-based ECE can be resolved through these two projects. If the consequences of these projects or any subsequent review of Home-based ECE are a reduction in the level of Home-based ECE funding or the imposition of more onerous regulations that Evolve Education may need to comply with in order to obtain funding, then this could have a significant adverse impact on the operations and profitability of Evolve Education.

RISKS RELATING TO THE INITIAL PORTFOLIO

Integration risks

To achieve its FY15F and FY16F forecasts Evolve Education will need to integrate effectively the Initial Portfolio as part of its integration plan (see Section 5.3.2 *Driving efficiencies and improving the education experience*). There is a risk that fully integrating the Initial Portfolio may take longer or cost more than anticipated, which could affect the profitability of Evolve Education.

There is no guarantee the Initial Portfolio will operate as profitably after integration as the relevant businesses within the Initial Portfolio did prior to being acquired by Evolve Education. The performance of the businesses may be adversely affected by changes such as an increase in overheads, any change in the management of an ECE Centre, a reduction in custom from parents who do not view the acquisition of the Initial Portfolio by Evolve Education favourably or additional costs that may need to be incurred as a consequence of a move away from the owner-operator model. The integration plan referred to above is intended to mitigate this risk. However, if the plan is not implemented, whether due to factors within or outside of Evolve Education's control, then this is likely to impact Evolve Education's revenue and profitability.

Due diligence risk

Management has performed or will perform pre-acquisition due diligence on each of the Owned ECE Centres and Home-based ECE businesses to be acquired. There is a risk that due diligence has not identified or will not identify issues that would have been material to the decision to acquire the Owned ECE Centres and Home-based ECE businesses. Further, there is a specific risk that information provided by the vendors regarding the historical occupancy of the Owned ECE Centres and Home-based ECE businesses may not be reliable, and that this could affect Evolve Education's view on forecast occupancy levels, particularly in the early months after acquisition. Evolve Education considers that the extensive due diligence conducted by Evolve Education and its advisers in relation to the acquisition of the Initial Portfolio reduces the likelihood of this risk occurring but can never eliminate this risk.

Limited operating history

While some of Evolve Education's Board and senior management have experience in business, management and the ECE industry, Evolve Education was only incorporated in May 2014. Accordingly, Evolve Education has a limited financial and operating history. Evolve Education's ability to achieve its objectives depends on the ability of its Board and senior management to implement the proposed business plans and to respond in a timely and appropriate manner to any unforeseen circumstances. There is a risk that Evolve Education cannot meet forecast occupancy or other key performance indicators or will incur additional costs of operation which might have an adverse effect on profitability.

Completion of Additional Acquisition Agreements

If any of the Additional Acquisition Agreements are not completed, the composition of the Initial Portfolio will change. Most of the Additional Acquisition Agreements are expected to be completed during December 2014 and January 2015, but there can be no guarantee that this will occur. Due to circumstances beyond the control of Evolve Education, it is possible that one or more of the Additional Acquisition

Agreements are not ultimately settled or settlement may be delayed. If Evolve Education becomes aware of this prior to allotment then Evolve Education expects that it would still allot the Shares under the Offer and, to the extent Acquisition Agreements did not settle, Evolve Education would look to acquire additional ECE Centres to replace those that did not settle. To the extent settlement is delayed or Evolve Education is unable to acquire additional ECE Centres in a timely manner to replace those that did not settle then this could reduce the profitability of Evolve Education in the Prospective Period.

OPERATIONAL RISKS

Reputation risk

Having a reputation as being a provider of high quality ECE services is an important factor in ensuring that Evolve Education maintains the occupancy rates and earnings at the ECE Centres and Home-based ECE businesses it will own. As Evolve Education will be the owner of a large number of ECE Centres, there is a risk that an isolated incident or incidents occurring at one or a number of ECE Centres, homes or the corporate office may impact on the reputation of Evolve Education and impact adversely on the profitability of all of Evolve Education's ECE Centres and Home-based ECE businesses. Adverse publicity concerning reported incidents or allegations of physical or sexual abuse or medical mismanagement, physical injury or other harm to a child at any ECE service, including by one or more centre managers, teachers, educators or contractors, or reports of disease, contamination or other illness at any ECE service, whether or not directly relating to or involving Evolve Education or within Evolve Education's control, may damage Evolve Education's brands and reputation, and lead to a reduction in the numbers of parents and caregivers that use Evolve Education's ECE services. This may result in demand for services diminishing significantly, which, if it occurred, would have a material adverse effect on Evolve Education's profitability. While Evolve Education will attempt to manage reputation risks that are within its control, thereby reducing the likelihood of them occurring, many of the risks relating to reputation are outside of its control. For the risk relating to the use of Evolve Education's brands and other intellectual property by third parties, see "Intellectual property and brand risk" below.

Intellectual property and brand risk

Evolve Education has agreed to license its intellectual property rights in relation to the Lollipops Educare brand to LEP Limited (LEP Limited is currently a company owned by Lollipops Educare but will not form part of the Lollipops Educare Acquisition) and certain of its related companies. Lollipops Educare has also licensed its intellectual property rights in the Lollipops Educare brand to third parties who operate six ECE Centres under the Lollipops Educare brand. These licences place restrictions on how the licensees are entitled to use the intellectual property and Lollipops brand. While Evolve Education will attempt to manage this risk by monitoring the licensees, if those licensees do not comply with the terms of the licence or otherwise act in a manner that causes adverse publicity to the Lollipops Educare brand, then this may reduce the confidence that parents and caregivers have in the Lollipops Educare brand which may have a material adverse effect on Evolve Education's profitability.

Liability and insurance risks

Evolve Education and its directors will be exposed to the risk of civil and criminal liability in relation to the operation of the Evolve Education business. Evolve Education intends to maintain insurance policies, having regard to business risks and insurance costs. However, insurance may not always be available on acceptable terms or where available, provide cover to indemnify Evolve Education and its directors fully against the occurrence of insured risks. In certain cases it may also not be legal to insure against the relevant liability. The occurrence of an event that is not covered (either fully or in part) by insurance could have a material effect on the business, financial condition or results of Evolve Education. As with all insurance policies, there is also no guarantee that Evolve Education's insurance will respond in all situations where risks that Evolve Education faces materialise.

PERSONNEL RISKS

Evolve Education's business model depends on a management team, both at the head office and at each ECE Centre, with the talent and experience to integrate and manage new ECE Centres into Evolve Education's core business operations. In addition, Jenny Yule will be the CEO of PORSE on a fixed term contract until December 2015. Evolve Education also depends on its ability to identify and retain high quality centre managers who, with the assistance of Evolve Education's management team, execute the strategies of Evolve Education at a centre level.

There is a risk that operating and financial performance could be adversely affected by the loss of key personnel, including Mark Finlay as an Executive Director, or the inability to attract new personnel.

Evolve Education expects that the PORSE business will be carried on by existing PORSE management in a manner similar to its recent business operations and under an agreed business plan, with oversight from Evolve Education's appointees to the full board of PORSE. Evolve Education will be reliant on PORSE management in this regard and there is a risk that the business could be affected by the loss of key management staff or that management do not execute the strategies in accordance with the business plan. This could adversely affect PORSE's profitability.

OTHER RISKS

The risk factors summarised above are not the only ones faced by Evolve Education. There are additional risks described in the Prospectus that are not summarised above, some of which may be material or significant. Those risks associated with the matters described below can be found in Section 5 *Risks* in the Prospectus:

- Regulatory approvals (Section 5.1 under the heading "Obtaining regulatory approvals for Additional Owned ECE Centres" and Section 5.2 under the heading "Licence risk");
- Risks relating to future growth (Section 5.1 under the heading "Risks relating to future growth");
- Operational risks (Section 5.1 under the headings "Operational risk and control", "No market sector diversification" and "Lease arrangements");
- Competition risks (Section 5.1 under the heading "Competition risk"); and
- Other general business risks (Section 5.2).

There will also be risk factors of which Evolve Education is currently unaware, or that it currently deems not material, but which may become key risk factors for the business in the future.

CONSEQUENCES OF INSOLVENCY

Shareholders will not be liable to pay any money to any person in the event of Evolve Education's insolvency.

All of Evolve Education's creditors would rank ahead of claims by Shareholders if Evolve Education were liquidated. After all such creditors have been paid, the remaining assets, if any, would be available for distribution among Shareholders who would rank equally among themselves. There may not be sufficient surplus assets to enable you to recover all or any of your investment.

OVERVIEW OF FINANCIAL INFORMATION

This Section contains prospective financial information for Evolve Education. The financial information should be read in conjunction with the risk factors set out in Section 7 *What are my Risks?*, Section 5 *Risks of the Prospectus*, the other information contained in this Investment Statement and Section 7 *Financial Information of the Prospectus*.

Included within this section is:

8.1 Introduction to Evolve Education's Financial Information

An overview of how Evolve Education makes money and the main drivers of its financial performance to help readers better understand the financial information provided in this Investment Statement.

8.2 Prospective Financial Information

PFI for the period commencing on incorporation of Evolve Education and ending 31 March 2015 (**FY15F**), and the year ending 31 March 2016 (**FY16F**). This forecast is presented on the same basis that future NZ GAAP compliant financial statements will be prepared.

8.3 Pro forma Prospective Consolidated Income Statement

The Pro forma Prospective Consolidated Income Statement presents the Prospective Financial Information that has been adjusted for specific items to assist potential investors with understanding the underlying forecast performance of the Evolve Education business.

8.4 Reconciliation of Non-GAAP Financial Information

A reconciliation from the Non-GAAP measures of profitability to the PFI. This section details how Non-GAAP measures are used by Evolve Education to monitor performance. The reconciliation of Non-GAAP information adjusts the statutory prospective financial information to reverse certain costs relating to:

- the Offer process;
- the purchase of the Initial Portfolio, such as legal fees and commissions; and
- the integration of business processes and systems.

8.5 Pro Forma Statement of Financial Position

The Pro Forma Statement of Financial Position shows Evolve Education's expected financial position immediately upon completion of the Offer and completion of the acquisition of the entire Initial Portfolio (on the basis that completion of the acquisition of the entire Initial Portfolio is shown to have occurred immediately on completion of the Offer as if these had occurred on 31 August 2014).

Section 7 *Financial Information* of the Prospectus contains the following additional financial information:

- Accounting Policies
- Investigating Accountant's Report
- Statutory Audit Report
- Description of Evolve Education's Financing Arrangements

In addition, included in Appendix 1: *Historical Financial Information* of the Prospectus are:

- Summary financial statements in tabular form for Evolve Education in respect of the period commencing on incorporation of Evolve Education and ending on 31 August 2014.
- Summary financial statements in tabular form based on special purpose audited financial statements for Lollipops Educare Holdings Limited in respect of the financial years ended 31 March 2014 and 31 March 2013.
- Summary financial statements in tabular form for PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited and PORSE Education & Training (NZ) Limited in respect of the financial years ended 31 December 2013, 2012, 2011, 2010 and 2009 and summary financial statements in tabular form for FOR Life Education & Training (NZ) Limited in respect of the financial years ended 31 December 2013 and 2012.
- Audited financial statements for Evolve Education for the period commencing on incorporation of Evolve Education and ending on 31 August 2014, being a date that is not more than 4 months prior to the date of this Investment Statement, as required by clause 23(3) of Schedule 1 of the Securities Regulations.
- Special purpose audited financial statements for Lollipops Educare Holdings Limited for the financial year ended 31 March 2014.
- Audited financial statements for PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited for the financial year ended 31 December 2013.

Declarations

The Financial Information presented relates to Evolve Education Group Limited and subsidiaries. Full details of the entities that comprise the Evolve Education Group are set out in Section 10 *Statutory Information* in the Prospectus under the heading “Principal subsidiaries of issuer”.

Certain information included in this section (including EBITDA, EBITDA before one-off acquisition, integration and listing-related costs) is Non-GAAP financial information. The statutory financial statements will be prepared in accordance with NZ GAAP and comply with New Zealand equivalents to International Financial Reporting Standards (NZIFRS).

This Investment Statement contains a detailed description and analysis of Evolve Education's industry (see Section 4 *Industry Overview*) and business (see Section 5 *Business Description*). You are strongly encouraged to read that detail in conjunction with the financial information set out below, Section 7 *What are my Risks?* and also Section 5 *Risks* of the Prospectus.

Evolve Education (and any person acting on its behalf) were granted the Securities Act (Evolve Education Group Limited) Exemption Notice 2014 (**Exemption Notice**), which came into force on 14 November 2014. Under the Exemption Notice, Evolve Education has been granted exemptions from clauses 12(3)(a) to (e) of Schedule 1 of the Securities Regulations in respect of the Additional Owned ECE Centres and the other related businesses to be acquired by Evolve Education. Evolve Education has also been granted exemptions from clauses 12(3)(d) and (e) of Schedule 1 of the Securities Regulations in respect of Lollipops Educare Holdings Limited which are reflected in the financial statements referred to above. Further details of the Exemption Notice are set out in Section 7 *Financial Information* in the Prospectus.



8.1 INTRODUCTION TO EVOLVE EDUCATION'S FINANCIAL INFORMATION

A Summary of how Evolve Education makes money.

The following provides a simplified overview of the key drivers of Evolve Education's financial performance as an introduction to assist in reading the detail in the rest of this section. Evolve Education's business model is to identify, acquire, integrate and manage childcare related businesses and operations throughout New Zealand.

Evolve Education ultimately makes money through the provision of quality childcare services, based both within ECE Centres and through Home-based ECE.

Key Drivers of Evolve Education's Financial Performance

The following factors will have a significant impact on the financial performance and net cash flows generated by Evolve Education, but they are not an exhaustive list of all the relevant factors.

- **Occupancy:** Each ECE Centre needs to care for a certain number of children in order to operate profitably. This varies from centre to centre and will be a key area of focus for Evolve Education. Occupancy can also be influenced by new ECE Centres being established by other ECE operators in areas that Evolve Education also operate.
- **Government funding of early childhood:** The level of Government funding provided to subsidise the cost of preschool aged children using ECE services has a direct impact on the demand for the services that Evolve Education provides. Changes in funding and changing the focus on funding could result in changing levels of demand and cost structures for Evolve Education.
- **Parent fees:** A key component of revenue for ECE Centres is parent fees, which are fees that ECE service providers can charge to parents or caregivers for child enrolment hours over 20 Hours ECE. In Evolve Education's case, parent fees are forecast to contribute approximately 34% of its ECE Centre revenue in FY16F. Parent fees are set on a centre by centre basis having regard to demand, cost and occupancy.
- **Staffing Levels:** Each ECE Centre and Home-based ECE business requires appropriate levels of qualified or trained staff and other staff to ensure the safe and compliant operation while at the same time ensuring that employment costs relative to child numbers, on a daily basis, are controlled. A higher level of Ministry of Education funding is available for the use of qualified teachers.
- **Building occupancy costs:** Building occupancy costs relate to lease costs and related property expenses. Evolve Education leases all of its buildings. The rental expenses have been set at market rates, with provision for periodic review to market rates.
- **ECE Centre Direct Expenses:** Direct expenses of providing services represent non-employee and non-occupancy expenses incurred at the centre level as part of providing childcare services. Forecast costs include nappies, food, IT, consumables and costs associated with local marketing and advertising. The centre manager is responsible for the day to day management of these costs, with oversight from the executive management.
- **Home-based Licences and number of children:** Government funding is received according to the number of licensed children that are provided services by the Home-based ECE service provider. Sufficient licences need to be held to ensure that appropriate funding is received for children under care.
- **Corporate Overheads:** Corporate overheads relate to management costs, governance and costs incurred on behalf of the Evolve Education Group companies such as insurance. These costs will be managed within a budget developed for the purposes of the PFI.
- **Other factors** which will drive future performance are Evolve Education's ability to identify and acquire additional businesses at an appropriate price and to successfully integrate them into Evolve Education.

8.2 PROSPECTIVE FINANCIAL INFORMATION

8.2.1 INTRODUCTION

This section includes the prospective financial information as required by clause 11(1)(c) of Schedule 1 of the Securities Regulations. The prospective financial information relates to the consolidated group position of Evolve Education and includes:

- The basis of preparation for the PFI of Evolve Education;
- Prospective Consolidated Statement of Comprehensive Income;
- Prospective Consolidated Statement of Movements in Equity;
- Prospective Consolidated Statement of Financial Position;
- Prospective Consolidated Statement of Cash Flows;

- Notes to the Prospective Financial Information including a description of the general and specific assumptions on which the PFI has been prepared and an analysis of the sensitivities of the PFI to changes in key assumptions; and
- A summary of the significant accounting policies adopted by Evolve Education in the preparation of the PFI.

The statutory auditor's report in relation to the PFI, as required by clause 28 of Schedule 1 of the Securities Regulations, is included in Section 7.8 of the Prospectus.

All amounts disclosed in the tables are presented in New Zealand dollars and, unless otherwise noted, are rounded to the nearest thousand dollars.

8.2.2 BASIS OF PREPARATION

The PFI for FY15F and FY16F has been prepared in accordance with the requirements of FRS-42 Prospective Financial Statements, as required by the Securities Regulations.

The PFI has been prepared with reference to the actual historical financial information for the following companies being acquired: Lollipops Educare; PORSE; and the other related businesses to be acquired⁴⁷. Based on FY16F, these entities make up 30 of the ECE Centres and all the Home-Based ECE businesses to be acquired and 53% of Evolve Education's revenue for that financial year. The Directors consider that due to the varying levels of availability and consistency of financial information in respect of the 55 Additional ECE Centres, and the inconsistent application of accounting policies across these centres, prospective investors are better informed by the use of consistent assumptions across all individual Additional ECE Centres and this better reflects the cost base under Evolve Education ownership. This includes the level of fixed assets and working capital at each ECE Centre. It is in respect of the unavailability or unreliability of historical financial information for all Additional ECE Centres that Evolve Education received the exemption as described earlier in this Section 8 *Overview of Financial Information*.

The PFI, including the assumptions underlying it, is the responsibility of, and has been prepared by management and approved by the Directors. It is based on the Directors' assessment of events and conditions existing at the date of this Investment Statement and the accounting policies and assumptions set out under the headings "Notes to the Prospective Financial Information" below. These assumptions should be read in conjunction with the sensitivity analysis and Evolve Education's accounting policies set out further below,

and the risk factors set out in Section 7 *What are my Risks?* and Section 5 *Risks* of the Prospectus.

PFI by its nature involves risks and uncertainties, many of which are beyond the control of Evolve Education. The Directors believe that the PFI has been prepared with due care and attention, and consider the assumptions, when taken as a whole, to be reasonable at the time of preparing this Investment Statement.

Actual results are likely to vary from the information presented as anticipated events and results may not occur as expected, and the variations may be material. Accordingly, neither the Directors nor any other person can provide any assurance that the PFI will be achieved and investors are cautioned not to place undue reliance on the PFI.

The PFI is presented in New Zealand dollars and is rounded to the nearest thousand.

The PFI FY15F will only include a maximum of three and a half months trading revenue and expenses as the acquisitions that comprise the Initial Portfolio are anticipated to be purchased in the December 2014 to March 2015 period, with the majority being completed in December 2014 and January 2015.

There is no present intention to update the PFI or to publish PFI in the future. Evolve Education will present a comparison of the PFI with actual financial results when reported in accordance with NZ GAAP and Regulation 44 of the Securities Regulations.

The Directors are responsible for and have authorised for issue the PFI on 14 November 2014 specifically for use in this Investment Statement and not for any other purpose.

⁴⁷ These being a company that operates a Home-based ECE business and a company that manages 20 ECE Centres for third parties.

PROSPECTIVE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	PERIOD ENDING 31 MARCH 2015	YEAR ENDING 31 MARCH 2016
\$'000s	Forecast	Forecast
Revenue from continuing operations	29,028	136,221
Share in equity accounted investee's profit	55	272
Employee expenses	(17,492)	(72,474)
Building occupancy expenses	(3,789)	(16,082)
Direct expenses of providing services	(3,852)	(16,560)
Acquisition expenses	(4,126)	–
Other expenses	(6,137)	(5,673)
Total expenses	(35,397)	(110,788)
Earnings before Interest, Taxes, Depreciation and Amortisation	(6,313)	25,705
Depreciation	(339)	(1,520)
Amortisation	(121)	(418)
Net finance expense	(2,117)	(674)
(Loss)/Profit before Tax	(8,891)	23,094
Income Tax Expense	(607)	(6,466)
(Loss)/Profit after Tax	(9,498)	16,627
Other comprehensive income	–	–
Total comprehensive income	(9,498)	16,627

PROSPECTIVE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	CONTRIBUTED EQUITY	RESERVES	RETAINED EARNINGS / (LOSSES)	TOTAL
\$'000s	Forecast	Forecast	Forecast	Forecast
Balance as at 20 May 2014	–	–	–	–
Profit for the Period	–	–	(9,498)	(9,498)
Other comprehensive income for the period	–	–	–	–
Total Comprehensive income	–	–	(9,498)	(9,498)
Dividends Paid	–	–	–	–
Share based payment reserve	–	–	–	–
Issue of share capital (net of costs)	156,945	–	–	156,945
Balance as at 31 March 2015	156,945	–	(9,498)	147,447
Profit for the Period	–	–	16,627	16,627
Other comprehensive income for the period	–	–	–	–
Total Comprehensive income	156,945	–	7,129	164,075
Dividends Paid	–	–	(4,154)	(4,154)
Share based payment reserve	–	–	–	–
Issue of share capital (net of costs)	489	–	–	489
Balance as at 31 March 2016	157,434	–	2,975	160,409

PROSPECTIVE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	AS AT 31 MARCH 2015	AS AT 31 MARCH 2016
\$'000s	Forecast	Forecast
Current assets		
Cash and cash equivalents	22,822	39,318
Trade, receivables and other current assets	3,188	2,908
Total current assets	26,010	42,226
Non-current assets		
Property, plant and equipment	5,657	4,901
Investments	1,832	2,104
Intangibles	163,804	163,386
Total non-current assets	171,292	170,392
Total assets	197,302	212,618
Current liabilities		
Trade and other payables	(8,197)	(10,674)
Funding received in advance	(12,285)	(13,326)
Employee entitlements	(5,060)	(5,299)
Lease liabilities	(589)	(682)
Other current liabilities	(2,364)	(868)
Total current liabilities	(28,495)	(30,849)
Non-current liabilities		
Deferred tax liability	(1,340)	(1,340)
Bank borrowings	(20,000)	(20,000)
Finance lease liability	(19)	(19)
Total non-current liabilities	(21,360)	(21,360)
Total liabilities	(49,855)	(52,209)
Net Assets	147,447	160,409
Equity		
Issued share capital	156,945	157,434
(Accumulated losses)/Retained earnings	(9,498)	2,975
Total Equity	147,447	160,409

PROSPECTIVE CONSOLIDATED STATEMENT OF CASH FLOWS

	PERIOD ENDING 31 MARCH 2015	YEAR ENDING 31 MARCH 2016
\$'000s	Forecast	Forecast
Cash flows from operating activities		
Receipts from customers (incl MOE funding)	33,503	137,489
Payments to suppliers and employees	(31,921)	(109,786)
Taxes paid	(303)	(4,608)
Net cash flows from operating activities	1,279	23,095
Cash flows from investing activities		
Payments for purchase of businesses	(115,680)	(1,140)
Payments for property, plant and equipment	(682)	(764)
Net cash flows from investing activities	(116,362)	(1,904)
Cash flows from financing activities		
Proceeds from issue of Shares	132,317	–
Share issue costs	12,357	–
Financing costs	(2,056)	(540)
Finance lease payments	–	–
Bank borrowing drawn/(repaid)	20,000	–
Pre-Listing funding received	1,798	–
Pre-Listing funding repaid	(1,798)	–
Proposed Dividend Payment	–	(4,154)
Net cash flows from financing activities	137,905	(4,695)
Net cash flows	22,822	16,496
Cash and Cash Equivalents at Beginning of Period	–	22,822
Cash and Cash Equivalents at End of Period	22,822	39,318

8.2.3 SEGMENT ANALYSIS

An operating segment is a component of an entity that engages in business activities from which it may earn and incur expenses, whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the Evolve Education Group, has been identified as the CEO.

It is intended that Evolve Education will operate as two reporting segments, being ECE Centres and Home-based ECE. The operating results are expected to be reviewed on this basis in the short to medium term.

To provide further information on the split between centre-based and home-based ECE services, the table below has been included.

	PERIOD ENDING 31 MARCH 2015	YEAR ENDING 31 MARCH 2016
\$'000s	Forecast	Forecast
Revenue		
ECE Centre based revenue	21,564	105,131
Home-based ECE revenue	7,195	29,973
Other revenue	269	1,117
Total revenue	29,028	136,221
EBITDA		
ECE Centre based EBITDA	4,048	27,460
Home-based ECE EBITDA	696	3,042
Total EBITDA for ECE Centres and Home-based ECE	4,744	30,502
Corporate and Management	(3,928)	(4,797)
EBITDA before acquisition, integration and listing costs	816	25,705

8.2.4 NOTES TO THE PROSPECTIVE FINANCIAL INFORMATION

The PFI has been prepared based upon various assumptions concerning future events, including those set out below. In preparing the PFI, Evolve Education has undertaken an analysis of the historical performance of the Initial Portfolio and applied assumptions in order to forecast future performance for the period ending 31 March 2015 and the year ending 31 March 2016.

The analysis of the historical performance included historical operational and financial information including, but not limited to, occupancy reports provided by the vendors of the businesses that comprise the Initial Portfolio (Vendor Occupancy Reports), reports made to the Ministry of Education to obtain funding and, to the extent available, financial statements for the year ended 31 March 2014 (or 31 December 2013 where relevant) or more recent periods where information was available (**Vendor Financial Information**).

The Vendor Financial Information was used to provide a basis for the preparation of the PFI. Evolve Education judged that it was not appropriate to include all the Vendor Financial Information in this Investment Statement because it had not been uniformly prepared in accordance with the recognition and measurement principles of NZ GAAP and in most cases had not been the subject of an audit or review. References to Vendor Financial Information in this Investment Statement have been provided to add context to Evolve Education's assumptions and should be read with consideration of the limitations outlined above.

The assumptions set out below should be read in conjunction with the sensitivity analysis set out below, the risk factors set out in Section 7 *What are my Risks?*, Section 5 *Risks* of the Prospectus and the *Investigating Accountant's Report* set out in Section 7.7 of the Prospectus.

8.2.5 GENERAL ASSUMPTIONS

In preparing the PFI, the following general assumptions have been adopted:

- Other than the entry of Evolve Education, no significant change will occur in the competitive environment in which Evolve Education operates;
- No material changes in the statutory, legal or regulatory environment that applies to Evolve Education's business will occur, in particular the ECE regime. This includes the continuation of Government support and funding for the ECE sector, and the basis of the existing funding model will continue with no material changes in the Prospective Period. The PFI assumes an increase in Ministry of Education funding of 0.69% from 1 July 2015;
- No material changes in general economic and business conditions will occur including levels of inflation, employment and interest rates;
- No changes in current income tax legislation will occur;
- No material changes in NZ GAAP, other mandatory professional reporting requirements, or the accounting policies of Evolve Education will occur which would have a material impact on the financial results of Evolve Education;
- No material impact from the loss of key personnel will occur. There is a risk that there will be a level of employee turnover which may become more pronounced after the change to Evolve Education ownership, for example with respect to centre managers. Evolve Education has incentivised certain key executives in order to retain the executive management team;
- No material litigation or dispute to which Evolve Education is a party will occur;
- The Offer proceeds in accordance with the timetable set out in Section 1.3 *Key Dates* of this Investment Statement; and
- The PFI has been compiled on the basis that general inflation will be at 1.6% per annum on all costs from 1 July 2015. This is based on inflation rates for the New Zealand economy.

8.2.6 SPECIFIC ASSUMPTIONS

Offer Proceeds and acquisition

As part of the Offer process, contributed equity will be \$156.9 million representing the issue of share capital of \$169.3 million offset by issuance costs of \$12.4 million. These issuance costs relate to adviser costs and brokerage costs. The issue of share capital of \$169.3 million is equal to that raised under the Offer (\$132.3 million), issued to the Lollipops Educare vendors (\$36.2 million) and issued to employees, advisers and directors (valued at \$0.775 million) at grant date. The shares issued to employees, advisers and directors equal 1,699,438 shares.

Acquisition of the Initial Portfolio

The table below provides a summary of the acquisitions which are expected to occur during the period from December 2014 to March 2015. The total acquisition cost is equal to \$167.2 million. The acquisition cost includes expected earn-out payments which will be payable to the vendors should the entities meet the earnings expectations as detailed in the Prospective Period. These earn-out payments have been discounted back to a present value estimate as at December 2014, as required by NZ IFRS.

Acquisition Cost	\$'m
Additional Owned ECE Centres	77
Lollipops	67
Other related businesses	1
Total ECE Centres	145
PORSE	11
Other related businesses	2
Total Home-based ECE	14
Total ECE Centres and Home-based ECE during December 2014 and January 2015	158
Additional Owned ECE Centres to be acquired by 31 March 2015	9
Total ECE Centres and Home-based ECE assumed to be acquired during Prospective Period (FY15F)	167

The further details relating to the acquisition of the following companies are set out in Section 10 *Statutory Information* under the headings “Acquisition of business or subsidiary” and “Material Contracts” in the Prospectus:

- Lollipops Educare Holdings Limited (100%);
- PORSE In-Home Childcare (NZ) Limited (100%);
- PORSE Franchising (NZ) Limited (100%);
- PORSE Education & Training (NZ) Limited (100%); and
- FOR Life Education & Training (NZ) limited (100%).

Revenue

The PFI assumes Evolve Education earns revenue from two main sources:

- Owned ECE Centre fees; and
- Home-based ECE fees.

Owned ECE Centre fees

The level of childcare fees is dependent upon three drivers:

Occupancy

Evolve Education has forecast occupancy at a centre by centre level. Where an ECE Centre operated at mature levels (long run expected occupancy levels) throughout the year ended 31 March 2014, Evolve Education has assumed occupancy levels in line with historical levels for FY15F and FY16F. This is based on management’s analysis of the centres being acquired.

Where an ECE Centre was not at maturity for the whole of the year ended 31 March 2014, management has based its occupancy assumptions on the monthly occupancy rates being achieved prior to the Offer and those expected as the ECE Centres reach maturity. The forecast occupancy in these ECE Centres during the Prospective Period has been assessed on a centre-by-centre basis, applying local market conditions such as competition and with reference to historical experience of current mature centres when at the same stage of growth.

An allowance has been made for the seasonality in occupancy occurring over the 2014/2015 Christmas holiday period. Management has also made an allowance for a small decline in occupancy over the period January 2015 and March 2015 to allow for the integration of the Additional Owned ECE Centres into the Evolve Education Group. The assumed declines are -4% in January 2015, -3% in February 2015 and -2% in March 2015.

Average occupancy rates for FY16F are forecast to be 87%. Occupancy is calculated relative to the maximum Ministry of Education’s funding hours.

Daily rates – Ministry of Education Funding

Management has forecast the funding to be received from the Ministry of Education based on the number of children forecast to attend the Owned ECE Centres. A higher level of funding is received from the Ministry of Education for children under two years of age, compared to those over the age of two. An increase of 0.69% received per child has been assumed from July 2015 in the PFI. This is based on average historical increases over the last four years.

Daily rates – Parent Fees

The PFI assumes increases of between 3.0% and 1.6% for the parent fees from 1 April 2015 in respect of the Lollipops Educare ECE Centres and 1 July 2015 in respect of the Owned ECE Centres. The assessment of increase has been based on a centre by centre analysis and has regard to historical price increases, demand at those ECE Centres and local competition. Where management is less familiar with the Owned ECE Centres, an approach has been taken with little or no increase in the forecast. This increase is being targeted to recover inflation expected to occur over the Prospective Period and the provision of a statutory holiday on a Monday when Waitangi Day and Anzac Day fall on the weekend.

The PFI assumes 34% of Owned ECE Centre revenue is received from the parents in FY16F. This assumption is based upon Vendor Financial Information on the proportion of parent funding currently being achieved at each ECE Centre and assumes that there is no change in the mix of the age of children currently in the ECE Centres.

Home-based ECE fees

The majority of revenue is received from the Ministry of Education. Reported revenue does not include the 20 Hours ECE subsidy which is passed on to the educators.

The level of Home-based ECE fees are dependent upon the following drivers:

The number and age of children

A higher level of funding is received from the Ministry of Education for children under two years of age, compared to those over the age of two.

Daily Rates – Ministry of Education Funding

An increase in the amount received of 0.69% from July 2015 from the Ministry of Education per licensed child has been assumed in the PFI. This is based on the average increase received over the last four financial years.

Number of Licences Held

Forecast funding from the Ministry of Education is based on the standard of care provided and the number of licences held. Up to 80 children per licence are funded. The PFI assumes an increase of 4.0% in child numbers in the Home-based ECE business based on the movement in children between 31 March 2015 and 31 March 2016. The Home-based ECE business holds sufficient licences to cater for the projected growth in child numbers.

Expenses

Employee expenses

Employee expenses comprise the wages and salaries (and related expenses such as ACC levies and Kiwisaver contributions) of Owned ECE Centres, Home-based ECE and corporate office employees.

Employee numbers at the ECE Centre level have been based upon staff to child ratios as required by the Ministry of Education and as presently operated in the ECE Centres. The Home-based ECE businesses budget for employee numbers based on a ratio of staff to children.

Corporate office employee numbers have been calculated using a bottom up approach based upon existing numbers and the expected number of staff required to operate Evolve Education following completion of the Offer. The existing organisational structure of Lollipops Educare Holdings Limited has been used as a basis for the human resource requirements of Evolve Education with additional resource assumed to reflect the further businesses acquired.

Corporate office salary assumptions are based upon existing employee agreements and market based remuneration for vacant roles.

The PFI forecasts assume an inflationary increase of 1.6% in employee expenses from July 2015 for ECE Centres and Home-based ECE.

Building occupancy expenses

Building occupancy expenses comprise primarily ECE Centre rent per the current lease, adjusted in line with NZ IFRS to reflect fixed future rent increases. The lease terms and rents are at market rates.

LEP Limited, a company of which Mark Finlay is a director and indirect shareholder (along with the other vendors of Lollipops Educare) is the landlord (and owner of the freehold title) of Evolve Education's head office at Level 2, 54 Fort Street, Auckland and is or will be the landlord of four of the Lollipops Educare Owned ECE Centres and three of the Additional Owned ECE Centres.

The PFI assumes an inflationary increase of 1.6% in building occupancy expenses from July 2015. This is based on inflation rates for the New Zealand economy.

Direct expenses of providing ECE Centre services

Direct expenses of providing ECE Centre services represent non-employee and non-occupancy expenses incurred at the ECE Centre level as part of providing childcare services. Forecast costs include cleaning, learning and development resources, nappies, food, IT, repairs and maintenance, consumables and costs associated with local marketing and advertising.

These assumptions are based on a bottom up analysis, utilising Management's experience combined with historical expenditure in the Vendor Financial Information as a benchmark.

The PFI assumes an inflationary increase of 1.6% in direct expenses from July 2015.

Other expenses

Other expenses comprise predominantly non-employee corporate office expenses including governance related expenditure e.g. audit, listing and share registry fees, travel, legal and insurance. Other expense assumptions are based on a bottom up approach.

Transaction costs that relate to the issue of shares are treated as costs that relate to the issue of an equity instrument and in accordance with NZ IFRS are recorded as a deduction of the Offer proceeds. All other transaction costs are recorded as part of the one-off acquisition, integration and listing costs in the profit and loss statement.

The PFI assumes an inflationary increase of 1.6% in other expenses from July 2015.

Depreciation and amortisation

Depreciation is calculated on a basis consistent with the Accounting Policy detailed later in this section.

Net finance expenses

Net finance expenses represent interest charged on the drawn facilities offset by interest earned on the cash in bank, establishment fees, interest on earn outs, plus a return amount on the loans provided by Kern Group NZ Limited, Wraith Capital Group NZ Limited, and Stuart and Gillian James as trustees of the S.B. James Superannuation Fund (as referred to in Section 10 *Statutory Information* of the Prospectus, under the heading "Material Contracts"), which will be repaid on completion of the Offer from the Offer proceeds. The interest expense, being the return amount, relating to these loans is \$1.798 million. This expense will be incurred in period ending 31 March 2015.

Evolve Education is forecast to draw down \$20 million of debt on completion of the Offer. This debt will be used to fund acquisition and related costs, and ensure that the company is adequately capitalised to trade over the first quarter of 2015. The PFI has treated this as term debt on the basis that it is the intention of the company to consider further acquisitions, which are not forecast in the PFI. Evolve management will implement capital management strategies having regard to the liquidity requirements, dividend policy and future acquisitions being considered by Evolve Education.

Taxation

A corporate income tax rate of 28% has been assumed in the PFI, being the current rate applicable in New Zealand. The tax expense reflects the extent to which expenses incurred by Evolve Education are deductible. Evolve Education is expected to be in a tax paying position during FY15F and later periods.

Capital expenditure

Capital expenditure is based on Management's assessment of a general level of refurbishment required on acquisition of the Initial Portfolio, plus a specific provision in instances where this has been identified for a particular ECE Centre. Capital expenditure of \$100,000 has been budgeted for the establishment of Evolve management head office. Management is forecasting total capital expenditure over the Prospective Period of \$1.4 million. The allocation of this expenditure is detailed in the table below.

Capital expenditure	Period ending 31 March 2015 (\$'000)	Year ending 31 March 2016 (\$'000)
ECE Centres	465	410
Home-based ECE	117	354
Other	100	–
Total	682	764

Accounts Receivable, accounts payable and other current assets and liabilities

Accounts Receivable, accounts payable and other current assets and liabilities have been forecast on terms materially the same as those experienced historically.

The pre funding of childcare by the Ministry of Education results in significant movements in the working capital position and cash balances of Evolve Education. The funding cycle for the Ministry of Education Funding is in March, July and November. Evolve Education will manage its cash position and term debt having regard to future working capital requirements, acquisitions, capital expenditure and dividends.

Ministry of Education Liabilities and employee entitlement liabilities

At acquisition, Evolve Education will acquire a service obligation to provide services to the Ministry of Education with respect to funding which has already been provided to the business. At settlement, the purchase price of the entities will be adjusted to reflect the Ministry of Education liabilities acquired to the extent that these liabilities are unfunded by the vendors. Likewise, provision has been made within the PFI forecasts for employee entitlements which are expected to be acquired at settlement. These adjustments will likely require modification to allow for the date of settlement with each of the respective vendors.

Financing and Bank Facilities

Evolve Education intends to enter into the New Financing Arrangements with ASB Bank Limited (**ASB**) during the Offer period. Further details of the New Financing Arrangements are set out in Section 7.9 *Description of Evolve Education Group's Financing Arrangements* of the Prospectus. The new banking facilities will be available upon successful completion of the Offer (subject to customary conditions precedent being satisfied). Evolve Education forecasts that it will draw down \$20 million under the senior revolving facility on completion of the Offer.

	Facility commitment	Drawdown at IPO
Senior revolving facility	\$30 million	\$20 million
Acquisition facility	\$60 million	–
Lease guarantee facility	\$3 million	
Total New Banking Facilities	\$93 million	\$20 million

Senior Revolving Facility

The senior revolving facility will be used to enable the initial acquisition of childcare businesses and as core bank debt to support the business. This facility will expire on 30 April 2018. However, the facility may be extended by a further 12 months on the anniversary of the date of the facilities agreement with the approval of ASB.

Acquisition Facility

The acquisition facility will be used to fund future acquisitions of childcare ECE Centres. This facility will expire on 30 April 2018. However, the facility may be extended by a further 12 months on the anniversary of the date of the facilities agreement with the approval of ASB.

Lease guarantee facility

The lease guarantee facility will be used for bonding purposes for rental leases.

Financial Undertakings

The agreement under which the New Financing Arrangements will be made available will contain undertakings given by Evolve Education Group which will be usual for facilities of this nature. The undertakings will include financial undertakings which will be tested at regular intervals during the year based upon historical results. The financial undertakings are described in Section 7.9 *Description of Evolve Education Group's Financing Arrangements* of the Prospectus.

The PFI does not indicate any issues in relation to this and Evolve Education expects to remain in compliance with these undertakings.

Dividends

The current intention of the Board is to pay dividends on a half yearly basis of between 40% and 60% of NPAT in respect of the preceding half year period, with the first dividend expected to be paid for the half-year period ending 30 September 2015 (which would, if declared, be paid in December 2015).

In determining whether to declare future dividends, the Directors will have regard to Evolve Education's earnings, overall financial condition and requirements, the outlook for the childcare industry, the taxation position of Evolve Education and future capital requirements. Further details of Evolve Education's dividend policy are set out in Section 6.5 *Board Policies and Procedures* of the Prospectus under the heading "Dividend Policy".

Dividends, if any, will be paid as an interim dividend prior to 31 December each year and as a final dividend prior to 30 June each year. Any interim dividend will be determined after taking into consideration all relevant matters including half year and forecast trading results. Any final dividend will be determined after taking into account the final trading results for the year, the interim dividend and other considerations. No assurance or guarantee can be given about the future dividend policy, the extent of future dividends or the timing or imputation credits attached to any dividend.

Dividends, when declared, are expected to be fully imputed for New Zealand tax purposes but no franking credits are expected to be available for Australian tax purposes.

In line with the Board's current intention, the PFI assumes the proposed payment of an interim dividend in December 2015 of \$4.2 million. The interim dividend represents 50% of the total forecast dividend. The total forecast dividend is 50% of the FY16F NPAT. This dividend is presented gross of any resident withholding tax payable.

Sensitivity Analysis

The PFI is based upon a number of estimates and assumptions as described above. These estimates and assumptions are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Evolve Education, the Directors and Management. These estimates are also based on assumptions with respect to future business decisions, which are subject to change.

Set out below is a summary of the key sensitivities of the forecast statement of comprehensive income for FY16F to changes in a number of key assumptions. The changes in the key assumptions set out in the sensitivity analysis are intended to provide a guide only and are not intended to be indicative of the complete range of variations that may be experienced. They are for information purposes only to allow potential investors to gain an understanding of the sensitivities of financial outcomes to changes in these key assumptions.

Care should be taken in interpreting these sensitivities as they consider movements in an assumption on an isolated basis, whereas in reality the effects of movements in an assumption may be offset or compounded by movements in other assumptions. Furthermore in the normal course of business, Management would be expected to respond to any changes in these key variables to minimise the net effect on financial performance.

The four key assumptions that are considered to have a significant impact on the prospective financial performance are set out below.

- **Average Occupancy:** As detailed in the key assumptions, the occupancy of the Owned ECE Centres is a key driver of revenue. This could be impacted by a number of different factors such as the extent of funding provided by the Ministry of Education and the quality of the employees at the Owned ECE Centres. For the purposes of the sensitivity calculation above, it is assumed that a 1% movement occurs evenly across all the Owned ECE Centres and has nil effect on employee expenses.

- **Daily rate per child:** The daily rate per child is calculated from the Ministry of Education and, in the case of ECE Centres, also parents/caregivers. This rate is a function of local market conditions. If there was a change in the level of competition in the areas in which Evolve Education operates or a perceived change in the quality of individual ECE Centres, it may impact the daily rate able to be recovered. This sensitivity assumes a movement in the daily rate across all ECE Centres with no change in cost base.
- **Employee expenses:** Employee expenses are forecast based on Ministry of Education regulations regarding child to staff ratios and current wage levels adjusted for future wage inflation. The sensitivity below addresses a 1% movement in employee expenses across all the Owned ECE Centres and Home-based ECE.
- **Number of ECE Centres acquired:** ECE Centres are forecast based on those expected to settle on completion of the Offer or within a period of three and a half months following completion of the Offer. The sensitivity below demonstrates the impact of an increase / (reduction) in the number of ECE Centres acquired.
- **Building occupancy expenses:** Building occupancy expenses relate largely to lease costs. The sensitivity below demonstrates the impact of a movement of 1% in building occupancy costs.
- **Number of children in Home Care:** The movement in child numbers in the Home-based ECE businesses measures the sensitivity of profitability to changes in demand.

SUMMARY OF KEY SENSITIVITIES

The table below ranks the sensitivities according to significance.

Assumption	Increase/decrease	FY16F NPAT impact
Average occupancy – ECE Centres	+/- 1%	\$0.9 million
Daily rate per child – ECE Centres and Home-based ECE	+/- 1%	\$0.9 million
Employee expenses – ECE Centres and Home-based ECE	+/- 1%	\$0.5 million
Number of Centres Acquired	+ / -1 Centre	\$0.2 million
Building occupancy expenses – ECE Centres and Home-based ECE	+/- 1%	\$0.1 million
Number of children – Home-based ECE	+/- 1%	\$0.1 million

8.3 PRO FORMA PROSPECTIVE CONSOLIDATED INCOME STATEMENT

The following Non-GAAP financial information represents prospective financial information that has been adjusted for specific items to assist potential investors with understanding the underlying forecast performance of the Evolve Education business.

PRO FORMA PROSPECTIVE CONSOLIDATED INCOME STATEMENT

	PERIOD ENDING 31 MARCH 2015	YEAR ENDING 31 MARCH 2016
\$'000s	Forecast	Forecast
Revenue from continuing operations (3)	29,028	136,221
Share in equity accounted investee's profit (4)	55	272
Employee expenses (5)	(17,492)	(72,474)
Building occupancy expenses (6)	(3,789)	(16,082)
Direct expenses of providing services (7)	(3,852)	(16,560)
Other expenses (8)	(3,134)	(5,673)
Total expenses	(28,267)	(110,788)
EBITDA before acquisition, integration and listing related costs	816	25,705
Depreciation (10)		(1,520)
Amortisation (10)		(418)
Net finance expense (11)		(674)
Net Profit before Tax		23,094
Income Tax Expense (12)		(6,466)
Net Profit after Tax		16,627

Notes:

- The Pro Forma Prospective Consolidated Income Statement excludes acquisition, integration and listing related costs as shown in 8.4 *Reconciliation of Non-GAAP Financial Information*. Refer to Section 8.2 *Prospective Financial Information* for information on key assumptions used in preparing the PFI. The numbers shown have not been rounded.
- The period ending 31 March 2015 represents the financial performance of Evolve Education since 20 May 2014, being the date of incorporation, to 31 March 2015. The results assume completion of the Acquisition Agreements occurs in the period from December 2014 to March 2015, with the majority being completed during December 2014 and January 2015. As such the period to 31 March 2015 will include a maximum of three and a half months trading.
- Revenue is comprised of childcare fees and government funding in respect of Owned ECE Centres and Home-based ECE businesses.
- Share in equity accounted investee's profits is comprised of Evolve Education's share of earnings derived from a jointly controlled operation.
- Employee expenses comprise the wages and salaries (and related expenses such as ACC levies and Kiwisaver contributions) of Owned ECE Centres, Home-based ECE and corporate office employees.
- Building occupancy expenses is comprised of property lease expenses and related property costs. Evolve Education leases all of its premises.
- Direct expenses of providing services are those incurred in the direct provision of ECE services.
- Other expenses are comprised predominantly of corporate office expenses such as audit, travel and insurance.
- The one-off acquisition, integration and listing costs excluded are described in Section 8.4 *Reconciliation of Non-GAAP Financial Information*.
- Depreciation and amortisation relates to tangible and intangible assets to be acquired by Evolve Education and arising on acquisition of the Initial Portfolio. These assets are depreciated/amortised over their useful economic lives. The amortisation charge relates to software assets, customer lists and training materials acquired.
- Net finance expenses represent interest charged on drawn facilities offset by interest earned on the cash in bank (refer to Section 8.2.6 *Specific Assumptions* under the heading "Net finance expenses"). The interest charge includes a payment of \$1.798 million to Stuart and Gillian James as trustees of the S.B. James Superannuation Fund, Kern Group NZ Limited and Wraith Capital Group NZ Limited under the Loan Agreements referred to in Section 10 *Statutory Information* in the Prospectus under the heading "Material contracts" and interest charges in relation to earn-outs agreed with respect to the acquisition of PORSE and other entities included in the Initial Portfolio.
- Income tax expense reflects a 28% company tax rate for the Prospective Periods.

Explanation of Non-GAAP financial information

Evolve Education's audited financial statements to 31 August 2014 set out in Appendix 1 have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as applicable for profit orientated entities. The Prospective Financial Information set out in Section 8.2 also complies with NZ IFRS.

In addition to GAAP measures of profitability, Evolve Education will also monitor its profitability using the Non-GAAP financial measures, such as of EBITDA. A reconciliation between EBITDA and NPAT is presented in Section 8.4 *Reconciliation of Non-GAAP Financial Information*.

EBITDA and EBITDA excluding one-off acquisition, integration and listing related costs

EBITDA is not defined by NZ GAAP, IFRS or any other body of accounting standards and therefore Evolve Education's 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 Evolve Education's financial information, should not be considered in isolation and is not a substitute for those measures.

EBITDA excluding one-off acquisition, integration and listing related costs reflects a number of adjustments relating to the acquisition of the Initial Portfolio and listing (see Section 8.4 *Reconciliation of Non-GAAP Financial Information*).



8.4 RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

Set out below is a reconciliation of Non-GAAP profitability measures (as described in Section 8.3 *Pro forma Prospective Consolidated Income Statement* under the heading “Explanation of Non-GAAP financial information”) with the prospective financial information set out in Section 8.2, together with a description of the various adjustments. EBITDA is a key metric which management monitors to operate the business. The measure provides a metric which measures the operating performance of the business and which is often used by the analysts to assess the enterprise value of the business.

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

	PERIOD ENDING 31 MARCH 2015 (1,2)	YEAR ENDING 31 MARCH 2016
\$'000s	Forecast	Forecast
Statutory NPAT	(9,498)	16,627
Net Finance Expense	2,117	674
Income Tax Expense	607	6,466
EBIT	(6,774)	23,768
Depreciation	339	1,520
Amortisation	121	418
EBITDA including one-off acquisition, integration and listing related costs	(6,313)	25,705
Acquisition Expenses	4,126	–
Integration Expenses	1,430	–
Listing Costs	1,253	–
Other	320	–
Total adjustments for one-off items	7,130	–
EBITDA excluding one-off acquisition, integration and listing related costs	816	25,705

Notes:

1. Refer to Section 8.2 *Prospective Financial Information* for information on key assumptions used in preparing the PFI.
2. The period ending 31 March 2015 represents the actual financial performance of Evolve Education since 20 May 2014 and the projected financial performance to 31 March 2015. The results assume completion of the Acquisition Agreements occurs in the period from December 2014 to March 2015, with the majority being completed over the period December 2014 to January 2015.

Explanations of adjustments made in arriving at EBITDA excluding one-off acquisition, integration and listing related costs

The Non-GAAP measures of EBITDA, EBITDA excluding one-off acquisition, integration and listing related costs have been described under the heading “Explanation of Non-GAAP Financial Information” in Section 8.3 *Pro forma Prospective Consolidated Income Statement*.

- Acquisition expenses:** In acquiring the Initial Portfolio, Evolve Education will incur certain expenses directly relating to those acquisitions including agents' commissions, legal fees, financing fees and financial, tax and operational due diligence fees.
- Integration expenses:** Non-recurring costs associated with the integration of the businesses will be expensed.
- Listing costs:** These relate to NZX and ASX listing costs and non-recoverable GST. All listing costs are expensed in the statutory forecast results. These expenses are not tax-deductible.
- Other expenses:** These relate to a provision for legal expenses and settlement costs that have been incurred by Evolve Education in connection with an employment related dispute, which has now been settled.

8.5 PRO FORMA STATEMENT OF FINANCIAL POSITION

The Pro Forma Statement of Financial Position set out below shows Evolve Education's expected financial position immediately upon completion of the Offer and completion of the acquisition of the entire Initial Portfolio (on the basis that completion of the acquisition of the entire Initial Portfolio is shown to have occurred immediately on completion of the Offer as if these had occurred on 31 August 2014).

PRO FORMA STATEMENT OF FINANCIAL POSITION 31 AUGUST 2014

	AS AT 31 AUGUST 2014 (1)	IPO PROCEEDS (2)	BANK DEBT RAISED AT IPO (3)	ACQUISITION, INTEGRATION AND LISTING COSTS INCURRED SINCE 31 AUGUST (4)	ACQUISITIONS (5) (6)	PRO FORMA BALANCE SHEET AS AT 31 AUGUST 2014 (7)
\$'000s	Actual					Pro-forma
Current assets						
Cash and cash equivalents	35	120,735	20,000	(4,992)	(108,422)	27,357
Trade and other receivables	673	–	–	–	618	1,291
Other current assets	2,092	–	–	–	542	2,634
Total current assets	2,800	120,735	20,000	(4,992)	(107,262)	31,282
Non-current assets						
Property, plant and equipment	–	–	–	–	5,074	5,074
Investments (8)	–	–	–	–	482	482
Intangibles	13	–	–	–	153,974	153,987
Total non-current assets	13	–	–	–	159,529	159,542
Total assets	2,813	120,735	20,000	(4,992)	52,267	190,824
Current liabilities						
Trade and other payables	(3,969)	–	–	–	(4,282)	(8,251)
Funding received in advance	–	–	–	–	(5,302)	(5,302)
Employee entitlements	–	–	–	–	(4,291)	(4,291)
Lease liabilities	–	–	–	–	(559)	(559)
Other current liabilities	(1,677)	–	–	–	(1,605)	(3,282)
Total current liabilities	(5,646)	–	–	–	(16,038)	(21,684)
Non-current liabilities						
Bank borrowings	–	–	(20,000)	–	–	(20,000)
Other	–	–	–	–	(19)	(19)
Total non-current liabilities	–	–	(20,000)	–	(19)	(20,019)
Total liabilities	(5,646)	–	(20,000)	–	(16,057)	(41,703)
Net Assets	(2,833)	120,735	–	(4,992)	36,210	149,121
Equity						
Issued share capital	–	120,735	–	–	36,210	156,945
Retained earnings	(2,833)	–	–	(4,992)	–	(7,825)
Total Equity	(2,833)	120,735	–	(4,992)	36,210	149,121
Parent Shareholder Equity	(2,833)	120,735	–	(4,992)	36,210	149,121
Non-controlling Interests	–	–	–	–	–	–
Total Equity	(2,833)	120,735	–	(4,992)	36,210	149,121

Basis of preparation

1. Sourced from the audited statement of financial position for Evolve Education as at 31 August 2014 (set out in full in Appendix 1 – *Historical Financial Information*). Evolve Education was established for the purpose of acquiring the Initial Portfolio.
 2. The net proceeds raised will be used to acquire the Initial Portfolio. These proceeds are reflected net of issuance costs incurred by Evolve Education. Issuance costs are forecast to be \$12.4 million.
 3. Evolve Education intends to draw down \$20 million of revolving debt on completion of the Offer to partially fund the acquisition of the Initial Portfolio and ensure that Evolve Education has adequate liquidity. The high cash position on Completion of the Offer is required to fund the business over the period to March 2015, when Evolve Education will receive its first payment from the Ministry of Education. The Ministry of Education part funds the provision of services in advance.
 4. Acquisition and Listing costs are incurred over the period leading up to and including the completion of the Offer. Expenses incurred in acquiring the Initial Portfolio will be expensed through the profit and loss account.
 5. The acquisitions comprising the Initial Portfolio will be concluded during the period from December 2014 to March 2015 following completion of the Offer. The PFI assumes that on average the acquisitions will occur on 31 December. The purchase price for these acquisitions has been allocated based on an estimate of the split between tangible and intangible assets. The fair value of the tangible assets to be acquired is estimated to be approximately \$40,000 per ECE Centre. The intangible assets are expected to include brands, customer contracts and software assets in Lollipops and the PORSE Group.
- No separately identifiable intangible assets have been identified for the Owned ECE Centres. The final allocation of the purchase price between these elements will occur following completion of the Offer. As part of the settlement process on acquisitions, Evolve Education will acquire Ministry of Education service obligations. The purchase price for the acquisitions will be reduced to the extent that these liabilities are not funded in the target companies and businesses. The Pro-forma balance sheet contains an estimate of the liabilities expected to be acquired, based on assumptions as to revenue and timing of the transactions. The net tangible assets acquired are based on Lollipops at 31 March 2014, the PORSE Group at 31 August 2014, and the other related businesses that Evolve Education has contracted to acquire at 31 March 2014⁴⁸. Due to the lack of GAAP of historical financial information available in respect of the 55 Additional ECE Centres, assumptions on the net assets have been applied consistently across these centres for inclusion in the Pro Forma Statement of Financial Position based on underlying financial metrics and supporting analysis. The Pro Forma Statement of Financial Position has been prepared assuming that these transactions occurred on 31 August 2014.
6. The intangible asset balance of \$153.99 million is comprised of goodwill, brands, software, customer lists and training material assets to be acquired. The brands acquired relate to Lollipops Educare and PORSE.
 7. The Pro Forma balance sheet presents an estimate of the opening balance sheet following the acquisitions of the Initial Portfolio, as if the transactions and Offer had been completed on 31 August 2014.
 8. This relates to an equity accounted investee held by Lollipops Educare Holdings Limited.

⁴⁸ These being a company that operates a Home-based ECE business and a company that manages 20 ECE Centres for third parties.

TERMS OF THE OFFER

The Offer

This Offer is an offer of ordinary shares in the capital of Evolve Education (**Offer Shares**).

The Offer is fully underwritten by the Underwriter in accordance with the terms of the Underwriting Agreement (see Section 10 *Statutory Information* in the Prospectus under the heading "Material Contracts" for a summary of the terms of the Underwriting Agreement).

Kern Group NZ Limited and Wraith Capital Group NZ Limited are promoters of the Offer. The registered office of Kern Group NZ Limited is Level 18, PricewaterhouseCoopers Tower, 188 Quay Street, Auckland Central, Auckland, 1010, New Zealand. The registered office of Wraith Capital Group NZ Limited is Level 18, PricewaterhouseCoopers Tower, 188 Quay Street, Auckland Central, Auckland, 1010, New Zealand. Samuel (Chris) Giufre (Queensland, Australia) being a director of Wraith Capital Group NZ Limited who is not also a director of Evolve Education, is deemed to be a promoter of the Offer.

The Offer Shares will be offered to Institutional Investors and to retail investors through the Broker Firm Offer, at the Offer Price of \$1.00 per Offer Share. There is no general public offer. Members of the public wishing to subscribe for Shares must be allocated Shares by an NZX Firm or Broker; there is no public pool under which you may subscribe for Shares. You should contact an NZX Firm or Broker to determine whether you may be offered Shares under the Broker Firm Offer.

On allotment, all Offer Shares will be fully-paid ordinary shares which rank equally with each other and all existing Shares.

The Offer is made on the terms, and is subject to the conditions, set out in this Investment Statement and in the Prospectus.

The Offer is conditional on the Lollipops Educare Acquisition and PORSE Acquisition becoming unconditional

You will not be allotted Shares unless, prior to allotment, the conditions to completion of each of the Lollipops Educare Acquisition and PORSE Acquisition (other than the finance conditions) have been satisfied or waived and the documents necessary to complete the Lollipops Educare Acquisition and PORSE Acquisition are being held in escrow, such that the Lollipops Educare Acquisition and PORSE Acquisition will each automatically be completed upon payment of the relevant purchase price by Evolve Education. It is a condition of the Underwriting Agreement between Evolve Education and the Joint Lead Managers that settlement of the Lollipops Educare Acquisition and PORSE Acquisition occur immediately after settlement of the Offer. Details of the principal conditions of each of the acquisitions which have not been satisfied or waived as at the date of this Investment Statement are set out in Section 8 *Details of the Offer* in the Prospectus.

If the Lollipops Educare Acquisition or PORSE Acquisition has not become unconditional (but for the finance condition) by 4 December 2014, or such later date as is agreed by the parties and Underwriter, the Offer will be cancelled. This could occur, for example, because a condition to completion was not satisfied or waived by that date. In that circumstance Application monies would be refunded to Applicants within five Business Days, without interest.

There is a risk that some of the Additional Acquisition Agreements may not settle or that settlement may be delayed, due to circumstances beyond Evolve Education's control. If Evolve Education becomes aware of this prior to allotment then Evolve Education expects that it would still allot the Shares under the Offer and, to the extent Acquisition Agreements did not settle, Evolve Education would look to acquire additional ECE Centres to replace those that did not settle. To the extent settlement is delayed or Evolve Education is unable to acquire additional ECE Centres in a timely manner to replace those that did not settle then this could reduce the profitability of Evolve Education in the Prospective Period.

Size of the Offer

The Offer comprises an offer by Evolve Education of 132.3 million Offer shares. The gross proceeds of the Offer will be \$132.3 million. Upon completion of the Offer and the Lollipops Educare Agreement there will be 177.1 million Shares on issue. Oversubscriptions will not be accepted.

The ownership structure of Evolve Education as at the date of Investment Statement and the indicative ownership structure upon completion of the Offer (following allotment of the Offer Shares and completion of the Lollipops Educare Acquisition) is illustrated in the table below. No Current Shareholder is selling any Shares under the Offer.

Shareholder	Ownership of Evolve Education as at the date of this Investment Statement		Indicative Ownership of Evolve Education following completion of the Offer and completion of the Lollipops Educare Acquisition	
	Ordinary Shares	%	Ordinary Shares	%
Current Shareholders				
Kern Group NZ Limited	2,285,369	28.19%	2,285,369	1.29%
Wraith Capital Group NZ Limited	2,285,369	28.19%	2,285,369	1.29%
Stuart and Gillian James as trustees of the S.B. James Superannuation Fund	2,285,369	28.19%	2,285,369	1.29%
Alan Wham	550,000	6.79%	550,000	0.31%
Vivek Singh	300,000	3.70%	300,000	0.17%
Norah Barlow	80,000	0.99%	80,000	0.05%
Alistair Ryan	80,000	0.99%	80,000	0.05%
David Smith	80,000	0.99%	80,000	0.05%
Beverley Gordon	80,000	0.99%	80,000	0.05%
Paula Hawkings	80,000	0.99%	80,000	0.05%
Other Shares issued				
Vendors under the Lollipops Educare Acquisition	–	–	36,209,901	20.45%
Hayes Knight Business Services (QLD) Pty Ltd (or nominees)	–	–	449,438	0.25%
New Shareholders pursuant to the Offer	–	–	132,317,278	74.72%
Total	8,106,107	100%	177,082,724	100%

No Current Shareholder of Evolve Education guarantees or undertakes any liability in respect of the Offer Shares.

Each of the Current Shareholders has entered into an escrow arrangement with Evolve Education under which the Current Shareholders have agreed not to sell, transfer or otherwise dispose of their Shares until at least the day that is two years after the date of commencement of quotation and trading of Shares on the NZX Main Board.

The vendors under the Lollipops Educare Acquisition will enter into an escrow arrangement with Evolve Education on completion of the Lollipops Educare Acquisition, and Hayes

Knight Business Services (QLD) Pty Ltd (or its nominees) will enter into an escrow arrangement with Evolve Education prior to being issued Shares on completion of the Offer. Under these escrow arrangements the vendors under the Lollipops Acquisition have agreed and Hayes Knight Business Services (QLD) Pty Ltd (or its nominees) will agree not to sell, transfer or otherwise dispose of their Shares until at least the day that is two years after the date of commencement of quotation and trading of Shares on the NZX Main Board.

The total percentage of Shares to be subject to the escrow arrangements post-listing is 25.28% of the total number of Shares in Evolve Education.

These restrictions do not apply (and therefore Shares can be sold) if a partial or full takeover offer is made under the Takeovers Code for Shares or if an amalgamation or scheme of arrangement with respect to the Shares is proposed. Each of the Current Shareholders is also permitted to create a security interest over their shareholding in favour of a recognised bank or other similar recognised lending institution, or to transfer all of their shareholding to an 'associated person' with the prior written approval of the non-interested Directors (provided that the lender/associated person (as applicable) enters into an escrow arrangement with Evolve Education). Further information about the Escrow Deeds that are material contracts is set out in Section 10 *Statutory Information* of the Prospectus under the heading "Material Contracts".

None of the Current Shareholders guarantees or undertakes any liability in respect of the Offer Shares.

For the purposes of NZX Listing Rule 7.1.8, based on the Offer Price the Current Shareholders, the vendors under the Lollipops Educare Acquisition Agreement and Hayes Knight Business Services (QLD) Pty Ltd (or nominees) will hold 44,765,446 Shares, representing 25.28% of the total Shares on issue following the Offer.

How much do I pay?

You will pay the Offer Price in full, being \$1.00 per Offer Share. All Offer Shares allotted under the Offer will be allotted at the Offer Price.

The Application Form requires that you apply for a specified number of Offer Shares at the Offer Price.

Refunds

The Offer may be withdrawn by Evolve Education at any time. The Offer may be withdrawn by Evolve Education at any time before the allotment of Shares, at Evolve Education's sole discretion. If the Offer or any part of it is withdrawn, then the relevant Application amounts will be refunded without interest no later than five Business Days after the decision to withdraw the Offer is announced.

If the total dollar amount of the Offer Shares you apply for is greater than the Offer Shares you receive due to scaling of your Application, this difference will be refunded to you (without interest) no later than five Business Days after the Allotment Date. If this difference is less than the Offer Price, it will be retained by Evolve Education.

If you apply for a total Application amount that is not a multiple of the Offer Price, your Application will be rounded down to the nearest multiple of the Offer Price and any difference will be retained by Evolve Education. Refunds will be paid in the manner in which you elect any future dividend payments to be paid on the Application Form.

Broker Firm Offer

The Broker Firm Offer is available to New Zealand resident clients of selected NZX Firms who have received a firm allocation from that NZX Firm and to Australian resident investors that have received a firm allocation from a Broker that has received an allocation.

You may apply under the Broker Firm Offer by completing the Application Form at the back of this Investment Statement. By making an Application, you declare that you were given a copy of the Investment Statement, together with an

Application Form. You should contact your NZX Firm or Broker if you require further instructions.

Applications under the Broker Firm Offer must be for a minimum amount of 2,000 Offer Shares, which equates to a minimum aggregate subscription amount of \$2,000.

It will be a matter for your NZX Firm or Broker to decide how they make allocations amongst their eligible retail clients and whether your Application will be scaled back.

Institutional Offer

The Institutional Offer consisted of an invitation prior to the date of this Investment Statement to selected Institutional Investors in New Zealand, Australia and certain other jurisdictions to apply for Offer Shares. Goldman Sachs New Zealand Limited (**Goldman Sachs**) has separately advised Institutional Investors of the additional terms and conditions, and the Application procedures for the Institutional Offer.

Allocations and Allotments

The allocation of Offer Shares between the Broker Firm Offer and the Institutional Offer was determined by Evolve Education in agreement with Goldman Sachs as sole bookrunner.

Allocations by NZX Firms and Brokers under the Broker Firm Offer to their Applicant clients will be determined by those NZX Firms and Brokers. It will be a matter for the NZX Firms and Brokers to ensure that Applicant clients who have received an allocation from them receive the relevant Shares. There is no minimum guaranteed allocation under the Broker Firm Offer. Applicants should contact their NZX Firm or Broker from whom they received their allocation to find out if their Application was successful.

No brokerage, commission or stamp duty is payable by Applicants under the Offer.

Listing and Quotation of Shares

NZX

Application has been made to NZX for permission to list Evolve Education and to quote the Shares on the NZX Main Board. All of NZX's requirements relating to that application that can be complied with on or before the date of this Investment Statement have been duly complied with. However, NZX accepts no responsibility for any statement in this Investment Statement.

NZX has authorised NZX Firms to act on the Offer. The NZX Main Board is a registered market operated by NZX, which is a registered exchange regulated under the Securities Markets Act 1988. Initial quotation of the Shares on the NZX Main Board is expected to occur on 5 December 2014 under the stock code "EVO".

ASX

Application will be made to ASX after this Investment Statement (accompanied by the Additional Australian Information) and the Prospectus are lodged with the Australian Securities and Investments Commission for Evolve Education to be admitted to the official list of ASX and for the Shares to be granted official quotation on the financial market operated by ASX. The ASX is not a registered market under the Securities Markets Act 1988.

ASX takes no responsibility for the contents of this Investment Statement and the Additional Australian Information or for the merits of the investment to which this Investment Statement and the Additional Australian Information relate. Admission to the official list of ASX and quotation of the Shares on the ASX are not to be taken as an indication of the merits, or as an endorsement by ASX, of Evolve Education or the Shares.

Subject to certain conditions (including any waivers obtained by Evolve Education from time to time), Evolve Education will be required to comply with the ASX Listing Rules.

Initial quotation of the Shares on ASX is expected to occur on or about 5 December 2014 under the stock code "EVO".

What you need to do to sell your Shares

The allotment of Offer Shares to successful Applicants is scheduled to take place on 4 December 2014. You should ascertain your allocation (if any) before trading in the Offer Shares. You can do this by phoning the NZX Firm or Broker from whom you received an allocation of Offer Shares.

If you wish to sell your Shares on the NZX Main Board after confirming your allocation you must have a Common Shareholder Number (**CSN**) and an Authorisation Code (**FIN**). New Zealand residents with a CSN will have their Offer Shares allotted under their CSN, if the CSN was provided on the Application Form. If a CSN is not provided on the Application Form, or the Application details do not match the CSN details, a new CSN and Authorisation code (**FIN**) will be allocated to the Applicant. Allotment statements with your allotment details and CSN will be despatched within five Business Days

after Allotment. Where an email address is provided on the Application Form, the Allotment statement will be despatched electronically to you. The associated Authorisation Code (**FIN**) will be sent by the Share Registrar as a separate communication by mail.

If you have a CSN and Authorisation Code (**FIN**), you may access your holding information on the Share Registrar's website: www.linkmarketservices.co.nz.

If you sell Offer Shares prior to receiving your Security Transaction Statement you will do so at your own risk. None of Evolve Education, the Promoters, the Joint Lead Managers, the Share Registrar, nor any of their respective officers, employees or advisers accepts any liability or responsibility should you or any person attempt to sell or otherwise deal with Offer Shares before you receive a statement showing the number of Offer Shares allocated to you (if any).

Failure to achieve listing

If admission to list on the NZX Main Board is denied or the Offer does not proceed for any other reason, all Application amounts will be refunded in full without interest no later than five Business Days after announcement of the decision not to proceed. Failure to achieve admission to list on the ASX will not, of itself, prevent the Offer from proceeding.

NZX Listing Rule 7.1.15

Set out below are details of the persons who have relevant interests in 5% or more of the classes of securities which have voting rights as at the date of this Investment Statement.

Ordinary shares			
RELEVANT INTEREST HOLDER	NUMBER OF SHARES	NATURE OF RELEVANT INTEREST(S)	CONSIDERATION AND OTHER TERMS OF ACQUISITION
Kern Group NZ Limited	2,285,369	Registered holder	400 Shares were acquired on 17 July 2014 for \$1 per Share. These Shares were split into 1,666,800 Shares on 31 October 2014. 618,569 further Shares were issued by Evolve Education on 14 November 2014.
Wraith Capital Group NZ Limited	2,285,369	Registered holder	400 Shares were acquired on 15 July 2014 for \$1 per Share. These Shares were split into 1,666,800 Shares on 31 October 2014. 618,569 further Shares were issued by Evolve Education on 14 November 2014.
Stuart and Gillian James	2,285,369	Registered holders in their capacity as trustees of the S.B. James Superannuation Fund	400 Shares were issued on 20 May 2014 for \$1 per Share. These Shares were split into 1,666,800 Shares on 31 October 2014. 618,569 further Shares were issued by Evolve Education on 14 November 2014.

None of the persons named above guarantees or undertakes any liability in respect of the Offer Shares.

Directors and Senior Management's interest in Shares

The following table sets out the number of Shares in Evolve Education that the Directors and senior managers (or their associated persons) own prior to, and will own, after the Offer:

Director / senior Manager	Shareholding person or entity	Ownership of Evolve Education as at the date of this Investment Statement		Indicative ownership of Evolve Education following completion of the Offer on basis that Offer is fully subscribed	
		Ordinary Shares	%	Ordinary Shares	%
Mark Finlay	Mark Finlay and Geoffrey Hosking as trustees of the Mark Finlay Investment No.2 Trust	–	–	20,138,542	11.4
	Mark Finlay and Mark Dobson Trustee Company Limited as trustees of the HR Finlay Family Trust	–	–	1,208,840	0.7
Greg Kern	Kern Group NZ Limited	2,285,369	28.19%	2,285,369	1.29%
Alan Wham	Alan Wham	550,000	6.79%	550,000	0.31%
Vivek Singh	Vivek Singh	300,000	3.70%	300,000	0.17%
Norah Barlow	Norah Barlow	80,000	0.99%	80,000	0.05%
Alistair Ryan	Alistair Ryan	80,000	0.99%	80,000	0.05%
David Smith	David Smith	80,000	0.99%	80,000	0.05%
Beverley Gordon	Beverley Gordon	80,000	0.99%	80,000	0.05%
Paula Hawkings	Paula Hawkings	80,000	0.99%	80,000	0.05%

On completion of the Lollipops Educare Acquisition, Evolve Education will issue 36,209,901 fully-paid shares (in aggregate) to the vendors of Lollipops Educare. Of those shares, 20,138,542 fully paid ordinary shares will be issued to Mark Finlay and Geoffrey Hosking as trustees of the Mark Finlay Investment No.2 Trust and 1,208,840 fully-paid ordinary Shares will be issued to Mark Finlay and Mark Dobson Trustee Company Limited as trustees of the HR Finlay Family Trust. Mark Finlay is a beneficiary of the Mark Finlay Investment No.2 Trust but is not a beneficiary of the HR Finlay Family Trust. Mark Finlay is also likely to be considered an associate (as that term is defined in the Takeover Code) of the other vendors of Lollipops Educare under the Takeovers Code.

Directors may apply for Shares under the Broker Firm Offer, in the same manner as any Applicant. To the extent that any Directors acquire Shares, those acquisitions must be disclosed to the market as required by law.

None of the persons named above guarantees, or undertakes any liability in respect of, the Shares.

All the persons noted in the table above have agreed with Evolve Education that, following completion of the Offer, they will not sell any Shares for a period of two years after listing. These restrictions are subject to certain customary exceptions. Further details are contained under the heading "Size of the Offer" above.

Evolve Education does not intend to adopt a long term executive incentive scheme prior to listing but the Board will give consideration to developing such a scheme following listing. Evolve Education considers that the shares issued to senior management prior to the date of this Investment Statement provide sufficient incentive to management in relation to the performance of the business.

Each Share gives the holder the rights conferred upon a Shareholder by the Companies Act and the Constitution, including the right to attend and vote at a meeting of Shareholders and the right to receive an equal share in any distribution, including dividends, if any, authorised by the Board and declared and paid by Evolve Education in respect of that Share.

Once the Shares are trading, further information about Evolve Education will be able to be obtained at www.nzx.com.

What returns will I get?

Your returns on Shares may be a combination of:

- dividends and other distributions paid on the Shares; and
- any gains you make if you sell or dispose of any Shares for a net price that is greater than the price you paid for them (although the market price of the Shares may also decline, making them worth less than you paid for them).

No amount of returns is promised in respect of the Shares. The key factors that determine the returns are the market price for the Shares and the Board's decisions in relation to dividends and other distributions. If you sell your Shares, you may be required to pay brokerage or other sale expenses. Taxes are also likely to affect your returns on Shares. You should seek your own tax advice in relation to the Shares.

Evolve Education is the entity legally liable to pay any dividends or other distributions declared on the Shares.

If you sell any of your Shares, the purchaser of those Shares will be legally liable to pay you the sale price.

You may cash in your investment by selling your Shares. Any sale of Shares must be made in accordance with the requirements of the Constitution, the NZX Listing Rules, the ASX Listing Rules and any applicable laws. Shares purchased or sold on the NZX Main Board or on ASX are likely to attract normal brokerage fees and charges.

Nothing in this Investment Statement should be construed as a promise of profitability, and none of Evolve Education, the Promoters, the Joint Lead Managers or any of their respective directors, officers, employees, consultants, agents, partners or advisers nor any other person gives any guarantee or promise as to the return on capital or the amount of any returns (including dividends and other distributions) in relation to the Shares.

Dividend Policy

Dividends and other distributions with respect to the Shares are made at the discretion of the Board and depend on a number of factors, including:

- current profitability;
- current and medium-term capital expenditure requirements;
- working capital requirements;
- current capital structure, having regard to the risks presented by short and medium term economic and market conditions and estimated financial performance; and
- available imputation credits.

The payment of dividends is not guaranteed and Evolve Education's dividend policy may change. No guarantee can be given about future dividends or the level of imputation of such dividends (if any) as these matters will depend upon future events including the profitability, growth opportunities, and financial and taxation position of Evolve Education, the Board's discretion, and the impact on Evolve Education's business of the risk factors (discussed in Section 7 *What are my Risks?*).

Subject to the above, Evolve Education intends to make dividend payments to Shareholders twice each year in respect of the half years ending 30 September and full years ending 31 March. The current intention of the Board is to pay dividends between 40% and 60% of NPAT in respect of the preceding half year period. However, the actual percentage of dividends paid to NPAT is expected to vary over time reflecting the above factors. The first dividend is expected to be made for the half year period ending 30 September 2015 (which would, if declared, be paid in December 2015). It is the Board's intention to attach imputation credits to dividends to the extent they are available. However, the extent of available imputation credits will be a factor the Board will consider in determining whether to pay a dividend.

You can find full details of Evolve Education's dividend policy (including tax implications for investors) in the Section 8.2 *Prospective Financial Information* under the heading "Dividends".

Can the investment be altered?

Amending the terms of the Offer

The terms of the Offer and the terms and conditions on which you may apply for Offer Shares may be altered by an amendment to the Prospectus at any time prior to the Allotment Date. Details of any such amendment must be filed with the Registrar of Financial Service Providers and distributing an amendment to this Investment Statement. However, these terms cannot be altered without an Applicant's consent after an Application has been accepted and Offer Shares allotted to the Applicant.

Amending the terms of the Shares

Evolve Education may only alter the Constitution (which sets out the rights attached to Shares) with approval by a special resolution of Shareholders, or in certain circumstances by court order. Evolve Education cannot take any action which adversely affects the rights of Shares unless that action has been approved by a special resolution of Shareholders whose rights are affected by the action.

A special resolution must be approved by at least 75% of Shareholders entitled to vote and who actually vote on that resolution. Under certain circumstances, if your rights are affected under an action approved by a special resolution of Shareholders, you may require Evolve Education to purchase your Shares.

Who do I contact with inquiries about my investment?

If you have any queries about the risk or suitability of an investment in Offer Shares you should consult your financial adviser or an NZX Firm or Broker.

If you have any inquiries about the Offer Shares, you should contact the Share Registrar at:

Link Market Services Limited
PO Box 91976, Auckland 1142
Level 7 Zurich House,
21 Queen Street,
Auckland 1010

Phone: +64 9 375 5998

Fax: +64 9 375 5990

Email: operations@linkmarketservices.co.nz

Is there anyone to whom I can complain if I have problems with the investment?

If you have complaints about the Shares, you should contact the Share Registrar at the address listed under "Who do I contact with inquiries about my investment?" above. There is no trustee, statutory supervisor or industry body to whom you can make complaints about this investment.

There is also no approved dispute resolution scheme to which you can make complaints about this investment.

If you have any complaints about your investment you may also contact, in New Zealand, the Financial Markets Authority and NZX and, in Australia, the Australian Securities and Investment Commission and ASX.





GLOSSARY

20 Hours ECE	A programme fully funded by the Government that enables children to attend ECE services for up to six hours per day and up to 20 hours per week free of charge. All children three years and above are entitled to receive this funding until they attend school
Acquisition Agreements	The Lollipops Educare Acquisition Agreement, the PORSE Acquisition Agreement and the Additional Acquisition Agreements
Additional Acquisition Agreements	The various agreements between Evolve Education and vendors of the Additional Owned ECE Centres and the other related businesses to be acquired by Evolve Education
Additional Australian Information	Additional information containing disclosure relevant to Australian investors in the Institutional Offer and to comply with requirements for a recognised offer under Chapter 8 of the Australian Corporations Act 2001 (Cth) and the Australian Corporations Regulations 2001 (Cth), which accompanies or is attached to this Investment Statement for the purposes of the Institutional Offer made in Australia
Additional Owned ECE Centres	The 55 ECE Centres owned and operated by third parties that Evolve Education has contracted to acquire (other than the Lollipops Educare Owned ECE Centres)
Allotment Date	4 December 2014, unless brought forward or extended by Evolve Education
Applicant	An investor whose Application Form has been received by the Share Registrar prior to the Closing Date
Application	An application to subscribe for Offer Shares
Application Form	The Application Form attached to or circulated with the Investment Statement to subscribe for Offer Shares under the Broker Firm Offer
Application Monies	The monies payable on Application
ASX	ASX Limited (ABN 98 008 624 691), or the financial market operated by ASX Limited, as the context requires
ASX Listing Rules	The listing rules of ASX and ASX Listing Rule means a rule contained in the ASX Listing Rules
Board or Board of Directors	The board of directors of Evolve Education
Bookbuild	The process by which the Offer Price was set, as described in Section 9 <i>Terms of the Offer</i>
Broker	Any company, firm, organisation or corporation designated as a market participant by ASX
Broker Firm Offer	The offer available to New Zealand resident clients of selected NZX Firms who have received an allocation from that NZX Firm and to Australian resident investors to apply for an allocation of Offer Shares from a Broker that has received an allocation
Business Day	A day on which the NZX Main Board is open for trading
CAGR	Compound annual growth rate
Closing Date	12:00pm, 3 December 2014, or such later date as set by Evolve Education
Constitution	The new constitution of Evolve Education which will be adopted on listing
CSN	Common Shareholder Number
Current Shareholders	Kern Group NZ Limited, Wraith Capital Group NZ Limited, Stuart and Gillian James, Norah Barlow, Alistair Ryan, Alan Wham, Vivek Singh, David Smith, Beverley Gordon and Paula Hawkins
Director	A director of Evolve Education

Directory	The directory set out in this Investment Statement
EBIT	Earnings before interest and income tax
EBITDA	Earnings before interest, income tax, depreciation and amortisation
ECE	Early childhood education
ECE Centre	Early childhood education centre
Educator	A person over 17 years of age who holds a first aid qualification and has the designated role of providing Home-based ECE directly to children in his or her care, and attends to the health and safety of those children
EV	Enterprise Value
Evolve Education	As the context requires, either Evolve Education Group Limited or the “Evolve Education” business carried on by the Evolve Education Group
Evolve Education Group	As the context requires, either Evolve Education, its subsidiaries, or Evolve Education and its subsidiaries
F	The inclusion of F after a reference to a financial period is an indication that it is a forecast period. For example, “FY16F” means the year ending on 31 March 2016, which is a forecast period
FY	A financial year
GAAP	Generally Accepted Accounting Practice
GDP	Gross Domestic Product
Glossary	This glossary of key terms
GST	Goods and services tax chargeable under the Goods and Services Tax Act 1985 (NZ) or a New Tax System (Goods and Services Tax) Act 1999 (Cth)
Home-based ECE	Early childhood education services provided to a small group of children in a home setting
Home-based Licence	The licence required by a Home-based ECE service provider to provide ECE services to a specified number of children. Typically, one Home-based Licence would be for 80 licensed places
IFRS	International Financial Reporting Standards
Initial Portfolio	All the shares in Lollipops Educare (which owns and operates the Lollipops Educare Owned ECE Centres), the 55 Additional Owned ECE Centres, all the shares in the PORSE group, and the other related businesses to be acquired by Evolve Education (being a company that operates a Home-based ECE business and a company that manages 20 ECE Centres for third parties)
Institutional Investors	Investors who the Joint Lead Managers determine are persons to whom an offer or invitation in respect of Shares may be made without the need for a registered prospectus under the Securities Act
Institutional Offer	The offer available to selected Institutional Investors in New Zealand, Australia and certain other jurisdictions
Investment Statement	The Investment Statement for the Offer dated 14 November 2014
Joint Lead Managers	Goldman Sachs New Zealand Limited and Forsyth Barr Limited
Licensed Child Places	The maximum number of child places specified in a Home-based Licence or in the Ministry of Education licence for an ECE Centre

Loan Agreements	The loan agreements between Evolve Education and Kern Group NZ Limited, Wraith Capital Group NZ Limited and Stuart and Gillian James as trustees of the S.B. James Superannuation Fund referred to in subsection 17 "Material Contracts" of Section 10 <i>Statutory Information</i> in the Prospectus, under which those parties provided advances to Evolve Education to fund Evolve Education's pre-Offer costs
Lollipops Educare	Lollipops Educare Holdings Limited
Lollipops Educare Acquisition	The acquisition by Evolve Education of all the shares in Lollipops Educare
Lollipops Educare Acquisition Agreement	The amended and restated agreement for sale and purchase of shares in Lollipops Educare Holdings Limited between Evolve Education (or nominee) (as purchaser) and the shareholders of Lollipops Educare (as vendors) dated 14 November 2014
Lollipops Educare Group	Lollipops Educare Holdings Limited and its wholly owned subsidiaries as at completion of the Lollipops Educare Acquisition
Lollipops Educare Owned ECE Centres	30 ECE Centres owned and operated by the Lollipops Educare Group, which includes three ECE Centres that are currently operated by Lollipops Educare as joint ventures with third parties. Lollipops Educare has contracted to acquire the third parties' interests in two of the joint ventures following completion of the Lollipops Educare Acquisition Agreement
MOE Occupancy Percentage	The total Ministry of Education funded child hours attended, as a percentage of the maximum funded hours available (licensed capacity x 30 hours/week)
Net Debt	The value of borrowings, finance leases, and the balance sheet liability for Ministry of Education funding received in advance, less cash and cash equivalents
New Financing Arrangements	The new financing arrangements to be entered into by Evolve Education and each member of the Evolve Education Group, as described in Section 7.9 <i>Description of the Evolve Education Group's Financing Arrangements</i> in the Prospectus
NPAT	Net Profit After Tax
NZD or NZ\$ or \$	New Zealand Dollar
NZ GAAP	Generally Accepted Accounting Practice in New Zealand
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZX	NZX Limited
NZX Firm	A shareholding firm authorised to trade shares on the NZX Main Board
NZX Listing Rules	The Listing Rules of the NZX Main Board in force from time to time
NZX Main Board	The main board equity securities market operated by NZX
Offer	The offer of Shares under this Investment Statement
Offer Price	\$1.00 per Offer Share
Offer Shares	Shares offered for subscription by Evolve Education under the Offer
Opening Date	24 November 2014
Owned ECE Centres	The Lollipops Educare Owned ECE Centres and the Additional Owned ECE Centres
PORSE	PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited
PORSE Acquisition	The acquisition by Evolve Education of all the shares in each entity that constitutes PORSE

PORSE Acquisition Agreement	The share sale agreement relating to shares in PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited between Evolve Home Day Care Limited (as purchaser) and the shareholders of the PORSE companies (as vendors) dated 22 September 2014
Promoters	Kern Group NZ Limited, Wraith Capital Group NZ Limited and Samuel (Chris) Giufre
Prospective Financial Information or PFI	Financial information for Evolve Education for the period commencing on incorporation of Evolve Education and ending 31 March 2016
Prospective Period	The period commencing on incorporation of Evolve Education and ending 31 March 2016
Prospectus	The registered prospectus for the Offer dated 14 November 2014, as may be amended in accordance with the Securities Act
Qualified teacher ratio	Number of qualified teachers as a percentage of total teachers and educators
RWT	Resident withholding tax
Securities Act	Securities Act 1978
Securities Regulations	Securities Regulations 2009
Shareholder	A shareholder of Evolve Education
Share Registrar	Link Market Services Limited
Shares	Ordinary shares in Evolve Education
Takeovers Code	Takeovers Code Approval Order 2000
Underwriter	Goldman Sachs New Zealand Limited
Underwriting Agreement	The underwriting agreement between Evolve Education and the Joint Lead Managers dated 14 November 2014, as more fully described in subsection 17 "Material Contracts" of Section 10 <i>Statutory Information</i> of the Prospectus

ADDITIONAL DEFINITIONS FOR THE KEY OFFER STATISTICS AND INVESTMENT METRICS

Gross yield	Total cash dividend forecast to be payable in respect of the prospective financial year ending 31 March 2016 plus imputation credits assumed to be attached to the dividend, divided by the Indicative Market Capitalisation. The Directors have assumed that the dividend in respect of the prospective financial year ending 31 March 2016 will be fully imputed
Indicative EV / EBIT multiple	EV divided by EBIT for the respective forecast financial year. This is a valuation metric that enables comparison with stock market peers
Indicative EV / EBITDA multiple	EV divided by EBITDA for the respective forecast financial year. This is a valuation metric that enables comparison with stock market peers
Indicative market capitalisation	The number of Shares on issue following the Offer multiplied by the Offer Price
Offer Price / Earnings ratio	Indicative market capitalisation divided by NPAT for the respective forecast financial year. This is a valuation metric that enables comparison with industry competitors and stock market peers
Prospective Net Debt	Net Debt is defined as the value of borrowings, finance leases, and the balance sheet liability for Ministry of Education funding received in advance, less cash and cash equivalents. Prospective Net Debt is calculated as Net Debt as at 31 March 2015, reflecting (i) Evolve Education's capital structure as a result of the Offer; and (ii) the unearned income liability on the balance sheet at that point in time
Net yield	Cash dividend forecast to be payable in respect of the prospective financial year ending 31 March 2016 divided by the Indicative Market Capitalisation

HOW DO I APPLY?

INSTRUCTIONS

You should read this Investment Statement carefully before completing the Application Form to apply for Shares under the Broker Firm Offer. Applications for Shares must be made on the Application Form.

GENERAL

The Application Form must be completed in accordance with the instructions set out in this section and on the Application Form itself.

Applications for Shares may be lodged from the Opening Date. The Broker Firm Offer will remain open until 12:00 noon NZT on 3 December 2014. This date may move to any such other date as Evolve Education may determine in its sole discretion.

Applications must be for a minimum amount of 2,000 Offer Shares, and thereafter in multiples of 100 Offer Shares.

An Application must be completed in full and may be rejected if any details are not entered or it is otherwise incorrectly completed. Evolve Education reserves the right to treat any Application as valid or to decline any Application, in whole or in part, in its sole discretion and without giving any reasons. Evolve Education's decision as to whether to reject the Application, or to treat it as valid (and then how to construe, amend or complete the Application Form) will be final.

An Application constitutes an irrevocable offer by the Applicant to subscribe for and acquire all or any of the number of Offer Shares at the Offer Price as specified on the Application Form on the terms and conditions set out in this Investment Statement, the Prospectus and on the Application Form. An application cannot be withdrawn or revoked. Investors applying whose Applications are not accepted, or are accepted in respect of a lesser value of Offer Shares than the amount for which they applied, will receive a refund of all or part of their Application Monies without interest, as applicable.

Allocations, if rounded, will be rounded down to the nearest whole number of Offer Shares. Refunds will not be paid for any difference arising solely due to rounding.

An Application may be accepted by Evolve Education in respect of the full number of Offer Shares specified in the Application Form or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

By submitting an Application Form, you agree to be bound by these terms and conditions and Evolve Education's Constitution. No person accepts any liability or responsibility should any person attempt to sell or otherwise deal with the Shares before the statements confirming allotments are received by the Applicants for the Shares.

THE APPLICATION FORM

A. Applicant details and information

Insert your FULL NAME(S), address and telephone numbers. Applications must be in the name(s) of natural persons, companies or other legal entities, up to a maximum of three names per Application. Applications by trusts, funds, estates, partnerships or other unincorporated bodies must be made in the individual names of the persons who are the trustees, proprietors, partners or office bearers (as appropriate).

More than one Applicant name may be required, depending on the terms of any governing documents for the body (for example, the trust deed or charter).

If, for your own purposes, you want to record that the Applicants hold their Shares on a particular account or for a particular purpose, you can record that as the "Corporate Name or On Account".

Use the table below to see how to write your name correctly.

Type of Investor	Correct Way to Write Name	Incorrect Way to Write Name
Individual person	JOHN ALFRED SMITH	J A SMITH
More than one person	JOHN ALFRED SMITH MICHELLE JANE SMITH	J A & M J SMITH
Company	ABC LIMITED	ABC
Trust	JOHN ALFRED SMITH (JOHN SMITH FAMILY A/C)	SMITH FAMILY TRUST
Partnership	JOHN ALFRED SMITH MICHAEL FREDERICK SMITH (JOHN SMITH AND SONS A/C)	JOHN SMITH & SONS
Club or Unincorporated Association	JANE ANNABEL SMITH (SMITH INVESTMENT CLUB A/C)	SMITH INVESTMENT CLUB
Superannuation fund	JOHN SMITH LIMITED (SUPERANNUATION FUND A/C)	JOHN SMITH SUPERANNUATION FUND

Mobile Number – Investors on the New Zealand register only

By supplying your mobile number you consent to the Share Registrar advising you by TXT Alerts (post the Allotment Date) of any changes to your holding balance, or if your bank account details or address on the register change, or if a new / replacement Authorisation Code (FIN) has been requested. This feature provides additional security to you investors.

B. Application Payment

The amount payable in respect of an Application is the number of Offer Shares applied for multiplied by the Offer Price.

Payment must be made in accordance with the instructions of your broker, in New Zealand dollars or, if applying in Australia, in Australian dollars. Institutional investors in New Zealand may pay through the NZClear system by prior arrangement and in Australia as per the instructions of the Arranger or their broker.

Complete the number of Offer Shares applied for and the dollar amount. Note the application minimum stated in the Application Form. Please advise payment method and bank account details for any future dividend payments.

Please ensure you fully understand the payment instructions which will be supplied to you by your broker and follow those instructions when you return your application and payment to your broker.

Australian investors and Institutional Investors must settle their Application as per the instructions received from the Arranger or their broker.

Dividend Payments

The bank account supplied will be used to direct credit your future Evolve Education dividends to.

C. Common Shareholder Number (CSN) Details (New Zealand Register Shares)

If you have other investments registered under a Common Shareholder Number (CSN) in New Zealand, you must supply your CSN in the space provided. The name and address details on your Application Form must correspond with the registration details under that CSN. If you do not provide a CSN it will be deemed that you do not have a current CSN and a new CSN and Authorisation Code (FIN) will be allocated to you at allotment of the Shares.

D. Provide your IRD Number / Tax File Number

Please provide your IRD number (New Zealand) or Tax File Number (TFN) (Australia). Resident withholding tax (RWT) will be deducted from any dividends paid to you (unless you provide a valid RWT exemption certificate or ATO exemption code). If you are exempt from RWT, please tick the exempt box and attach a photocopy of your exemption certificate. Only one IRD number is required per holding.

If you are registered in a country other than New Zealand for tax purposes please provide your country of tax residence in the box provided, otherwise Evolve Education will treat you as a New Zealand tax resident under the Income Tax Act 2007.

E. Electronic Investor Correspondence

By supplying your email address Evolve Education will be able to deliver your investor correspondence electronically where possible. This is a much more environmentally-friendly, cost-effective and timely option than paper based investor mail-outs.

F. Signing and Dating

Read the Investment Statement and Application Form carefully and sign and date the Application Form.

The Application Form must be signed by the Applicant(s) personally, or by two directors of a company (or one director if there is only one director), or in either case by a duly authorised attorney or agent.

Joint Applicants must each sign the Application Form.

G. Closing Date and Delivery

The Broker Firm Offer will close at 12:00 noon NZT on 3 December 2014 (being the Closing Date). Applicants should remember that the Closing Date may be changed at the sole discretion of Evolve Education. Changes will be advised by NZX announcement. Evolve Education reserves the right to refuse to accept Applications received by the Share Registrar after the Closing Date. Your Application Form should be delivered in accordance with the instructions contained on the Application Form.

In the event of an extension to the Offer, Application funds will continue to be held on behalf of Applicants pending allotment. No interest will be paid to Applicants on Application funds received in the event that the Closing Date is extended.

H. Power of Attorney

If the Application Form is signed by an attorney, the power of attorney document is not required to be lodged, but the attorney must complete the certificate of non-revocation of power of attorney, as set out in section H of the Application Form.

I. Agent

If the Application Form is signed by an agent, the agent must complete the certificate of non-revocation of agent, as set out in section I of the Application Form.

TREATMENT OF APPLICATION

The return of an Application Form with your Application Monies will constitute your offer to purchase or subscribe for Offer Shares and once lodged your Application is irrevocable and cannot be withdrawn. If your Application Form is not completed correctly, or if the accompanying payment is the wrong amount, it may still be treated as valid.

The decision of Evolve Education as to whether to treat your Application Form as valid, and how to construe, amend or complete it shall be final. The decision on the number of Offer Shares to be allocated or transferred to you shall also be final. You will not, however, be treated as having agreed to purchase a greater number of Offer Shares than that for which payment has been made.

Investors applying whose Applications are not accepted, or are accepted in respect of a lesser value of Offer Shares than the amount for which they applied, will receive a refund of all or part of their Application Monies without interest, as applicable. Allocations, if rounded, will be rounded down to the nearest whole number of Offer Shares. Refunds will not be paid for any difference arising solely due to rounding.

PRIVACY POLICY

If you apply for Offer Shares, you will be asked to provide personal information to Evolve Education, the Share Registrar and their respective agents who will collect and hold the personal information provided by you in connection with your Application.

Your personal information will be used:

- (a) for considering, processing and corresponding with you about your Application;
- (b) in connection with your holding of Shares, including sending you information concerning Evolve Education, your Shares and other matters Evolve Education considers may be of interest to you by virtue of your holding of Shares; and
- (c) for conducting an audit or review of the activities contemplated in (a) or (b).

To do these things, Evolve Education or the Share Registrar may disclose your personal information to:

- (a) each other;
- (b) their respective related companies; and
- (c) agents, contractors or third party service providers to whom they outsource services such as mailing and registry functions. However, all of these parties will be bound by the same privacy policies as Evolve Education and the Share Registrar.

Failure to provide the required personal information may mean that your Application Form is not able to be processed efficiently, if at all.

Where Evolve Education and the Share Registrar hold personal information about you in such a way that it can be readily retrieved, you have a right to obtain from Evolve Education and the Share Registrar confirmation of whether or not they hold such personal information, and to access and seek correction of that personal information under the Privacy Act 1993 by contacting the privacy officers of Evolve Education and the Share Registrar at their respective addresses shown in the Directory.

You can also access your information on the Share Registrar's website:

New Zealand Registry

www.linkmarketservices.co.nz

(you will require your CSN and Authorisation Code (FIN) for secure access).

Australian Registry

www.linkmarketservices.com.au

(you will require your holder number and postcode for secure access).

DIRECTORY

EVOLVE EDUCATION GROUP LIMITED

Level 2
54 Fort Street
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DIRECTORS OF EVOLVE EDUCATION

Norah Barlow (Chairperson)
Mark Finlay
Greg Kern
Alistair Ryan
Alan Wham

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ACCOUNTING ADVISER

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FINANCIAL ADVISER

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Australia 4004

BANKER AND LENDER

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PROMOTERS

Kern Group NZ Limited
Wraith Capital Group NZ Limited
Samuel (Chris) Giufre

SOLICITORS

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