Evolve Education Group Ltd

Annual Shareholders' Meeting 27 June 2022

Address by Chair Hamish Stevens

Ata mārie ki a tātou katoa.

Good morning, everyone and welcome to Evolve Education Group's eighth annual shareholder meeting.

I wish to talk mainly about the 2021 year in review and then make some general comments about the current trading conditions. We then have several resolutions to be put to the meeting in line with the notice of meeting.

The financial year ended 31 December 2021

I will talk primarily to Underlying EBITDA. Underlying EBITDA is a non-GAAP measure that we believe captures the true operating performance of the business and excludes one-off adjustments and IFRS16 changes. Underlying EBITDA has been the prime measure used internally by the board to monitor company performance for several years. A reconciliation of underlying EBITDA to audited net profit is provided in the published financial statements.

Because the Company changed its balance date during the previous year (from March to December), the comparative prior year within the audited financial statements is the nine months to December 2020. To provide a more meaningful comparison we have shown in the tables that follow the annualised pro-forma prior period to December 2020. That is so we are showing the most recent 12 months compared with the previous 12 months.

$NZm	Centres Dec-21	Occ. FY21	12 months to 31 Dec 2020	12 months to 31 Dec 2021	change
NZ	107	69%	14.0	2.9	-11.1
Australia	23	80%	5.4	10.9	+5.5
Corporate costs			(1.3)	(1.2)	+0.1
Underlying EBITDA	**130**		**18.1**	**12.6**	**-5.5**

This shows that Group underlying EBITDA decreased by $5.5m from the 12 months ended December 2020 to the 12 months ended December 2021. This comprised a reduction of $11.1m Underlying EBITDA in New Zealand and an increase of $5.5m in Australia.

NEW ZEALAND

$NZm	12 months to 31 Dec 2020	12 months to 31 Dec 2021	change
Average occupancy	68%	69%	+1% points
Total revenue	**115.1**	**113.9**	**-1.2**
Operating costs	(113.0)	(111.0)	+2.0
EBITDA before wage subsidy	**2.1**	**2.9**	**+0.8**
Govt. wage subsidy	11.9	-	-11.9
Underlying EBITDA NZ	**14.0**	**2.9**	**-11.1**

Unfortunately, the New Zealand result was again affected by government mandated Covid restrictions in 2021 as the government endeavoured to eliminate the Covid Delta variant last year. The main impact was from the full closure of New Zealand centres from mid-August 2021 and hit us particularly hard in Auckland where the closure restrictions continued the longest. Evolve has a heavy weighting of Auckland centres where we have 45% of New Zealand licensed places. While this result was not dissimilar to the previous year when the company was also impacted by centre closures, the difference is that we were not eligible for government wage subsidies in 2021. In the previous year the company received $11.9m of wage subsidies. This accounts for almost all the decline in Underlying EBITDA in New Zealand from 2020 to 2021. (The key change in eligibility was to increase the revenue decline threshold from 30% to 40% reduction. Parent fees make up around 35% of our revenue, so while we met the threshold in 2020, we did not in 2021.)

The most recent pre-Covid 12 month period, the 12 months to March 2020. Showed a comparable 'EBITDA before wage subsidies' of $7m. The variance from this year to the latest year is primarily the impact of government mandated centre closures offset by our internal cost reductions.

Several further points about Covid in New Zealand:

- Firstly, our top priority was to ensure the safety of all children and staff.
- Secondly the board decided to keep all staff on full pay during the times our centres were closed. I believe this wasn't the case right across the sector, but we felt it was the right call. When centres were closed in New Zealand, our teachers continued to engage with children and families through on-line platforms. It was important to us that we retained our dedicated and committed teaching staff and give stability to our families and children.

- Thirdly, although there have been no blanket centre closures in place since late last year, occupancy remained impacted by several factors: Omicron in the community, closed borders, severe teacher shortages, staff members requiring to isolate or care for family members, and parents working from home. These factors apply in different ways across different centres, but in particular teacher shortages are reducing our ability to accept new enrolments in some centres. These factors kept NZ occupancy lower than we would like.

The impact of mandated centre closures in both 2020 and 2021 was significant with the overall reduction in parent fees being similar in both years. As mentioned however, we received compensating wage subsidies in 2020 and did not in 2021.

Current focus areas and key initiatives in New Zealand to increase average occupancy are:

- Refresh and upgrade of centres
- Rolling out enhanced offerings at centres (music and science programmes)
- New positions filled to drive occupancy post Covid-19
- Closure or sale of unprofitable centres – in 2021 we disposed of 6 unprofitable NZ centres.

The Company will continue to focus on improving the performance of centres in New Zealand.

AUSTRALIA

$Am	12 months to 31 Dec 2020	12 months to 31 Dec 2021	change
Centres at year end	10	23	+13
Average occupancy	75%	80%	+5%
Revenue	20.0	41.5	+21.5
Operating costs	(15.3)	(31.5)	-16.2
Underlying EBITDA Aust.	**4.7**	**10.0**	**+5.3**

Three years ago, we commenced an Australian acquisition strategy with the objective of broadening and strengthening the Company's earnings, and in calendar year 2019 we acquired 10 centres. The acquisition programme was put on hold in 2020 due to Covid but in March 2021 we resumed our programme resulting in the purchase of 13 centres in calendar year 2021. Our 23 Australian centres now represent 22% of Evolve’s total licences places. Last year the Australian centres averaged occupancy of 80%.

The board acknowledges the efforts of our Australian team not only in identifying great locations but also ensuring we have integrated the centres well into the Evolve family.

Right now, we are again on hold while we work through the current uncertainty around Omicron variants. We do have the ambition to make further acquisitions at a price that allows us to add shareholder value, but conservatively managing our cash and debt position in the current environment remains a priority.

While Australia has been impacted by Covid just as much as New Zealand, the Australian government has been highly supportive of the ECE sector, and that support has allowed us to maintain relative profitability in our Australian operations.

The increase in Australian Underlying EBITDA from 2020 to 2021 is largely due to the additional centres acquired in 2021. It should be noted that the Australian result still does not include a full year trading of the 13 centres acquired in 2021.

The directors decided to withdraw FY22 guidance earlier this year given the emergence of Omicron in New Zealand and Australia. There has been much media commentary recently on the ongoing impact of Omicron on overall education attendance in NZ, and Evolve is also affected by this. We still believe the environment is too uncertain to reliably provide earnings forecast for the current year.

However, I will make some general comments about the current trading environment:

- The six months since 1 January 2022 has seen continued full and part centre closures in both New Zealand and Australia. This has reduced parent fee income against where we expected it to be.
- Occupancy particularly in Auckland remains suppressed due to the direct impact of Covid, the continued closure of borders to immigrant teachers, and parents working from home.
- The teacher shortage is ongoing and last week the Company had 80 teacher vacancies. In some centres children (particularly under 2s) are on waiting lists due to there not being enough teachers. This is a sector wide issue.

The directors will consider reinstating profit guidance for FY22 when the environment in New Zealand and Australia is more certain.

Dividend

The directors are particularly conscious that the Company has not paid a dividend for some years. This is not satisfactory. Unfortunately, the impact of Covid-19 on our business has required us to conserve financial resources and as a result we have again elected to delay the recommencement of shareholder dividends.

Thank you

I want now to acknowledge the huge support we have received from our 2,200 employees across our 130 centres particularly through the last two and a half years. These have been challenging and anxious times and our employees ensured throughout that our children and families' safety and well-being was paramount. The additional operational protocols, communication and understanding was critical to Evolve's ability to make it through this period. Thank you for your unswerving dedication and commitment.

I would also like to thank our many wonderful families that have continued supporting us through this period and reiterate the commitment of my fellow directors and management to ensuring that we continue to provide a safe, vibrant, and stimulating environment for all our children.

And thank you to you our shareholders for your support. As noted last year, we have endeavoured to keep you informed as well as we could through turbulent times.

Ngā mihi nui.