

**NZX/ASX RELEASE**

28 October 2016

**IQE – OPERATIONAL UPDATE AND FY 2016 FINANCIAL GUIDANCE**

Intueri Education Group (NZX/ASX: IQE) has today provided an update on its operational progress and FY 2016 financial guidance, in light of the legislation changes in the Australian vocational sector, the regulatory activity in both New Zealand and Australia, and the Group's ongoing reorganisation and cost saving initiatives.

- Significant progress has been made on the reorganisation of Intueri's New Zealand college portfolio, including the formation of the new amalgamated Private Training Establishment (PTE), Intueri Education New Zealand Limited (IENZ).
- A number of cost saving initiatives have been identified and are underway, with an additional \$1.2m of cost savings now expected in FY 2016 (up to \$6.2m), partially offsetting enrolment shortfalls and one-off costs associated with restructuring, legal and advisory expenditure.
- The commercial outlook for Intueri's Australian businesses will be clarified following assessment of the impact of the new VET Student Loans (VSL) programme; a decision regarding the compliance status of Conwal & Associates Pty Ltd (Conwal) and Online Courses Australia Pty Ltd (OCA) following the Australian Skills Quality Authority (ASQA) audit process and Intueri's response due for submission by 6 November 2016; and reconciliation of 2015 VET FEE-HELP (VFH) student data and corresponding 2015 payments by the Department of Education (DET).
- Intueri now expects 2016 underlying EBITDA to be approximately \$9.5m (previously \$15m), subject to confirmation of an A\$6m uplift in the 2016 VFH funding cap which is included in the guidance.

**New Zealand: Regulatory Audit and Reviews Update**

As with many other providers, Intueri has been undergoing regulatory reviews and audits in New Zealand. In 2H 2016, the following audits and reviews have been undertaken:

- New Zealand Qualification Authority (NZQA) External Evaluation and Review (EER) of New Zealand Institute of Sport: Category 1 status retained
- Tertiary Education Commission (TEC) audit of The New Zealand College of Massage: No key findings or recommendations identified in the report
- TEC review of Information Technology Training Institute: Draft report received
- TEC investigation of Quantum: Report expected to be concluded by year-end.

**New Zealand: Operational Reorganisation and Cost Saving Initiatives**

Intueri is continuing to reorganise its New Zealand operations as it works towards creating a streamlined portfolio of colleges with an improved, more cost efficient operational structure for 2017.

- As previously advised, Intueri has amalgamated a number of its New Zealand colleges into one PTE, IENZ. This amalgamated PTE is well positioned to deliver administration and efficiency benefits and also provides additional funding flexibility. Intueri has been engaged in positive discussions with the TEC over the past few months in regard to 2017 funding and anticipates receiving funding to enable IENZ to deliver a strong mix of programmes.
- The restructuring of Quantum is well progressed, with a further round of proposed rationalisation currently underway following an assessment of 2017 funding and programme

planning for the future. As advised previously, Intueri is phasing out the Quantum PTEs in 2017.

- The restructuring of the Design and Arts College will be completed by the end of 2016.
- A proposal to consolidate the Cut Above and Elite college sites in central Auckland is underway, reflecting the complementary beauty teaching programmes in these two colleges.
- The ITTI brand will be phased out as Intueri moves to deliver its IT programmes through the Academy Group.
- Intueri is in discussions with multiple parties regarding the Dive School divestment and is aiming to conclude this process by the end of 2016.
- Further cost savings, in addition to those already confirmed, have been identified.

The initiatives already underway will secure cost savings of \$6.2m in 2016 (an increase of \$1.2m on the previously advised \$5m), and \$12m on an annualised basis in 2017. A further \$1m of cost reductions have been identified for 2017, including additional savings in Corporate and Shared Services.

Intueri continues to progress its claim against the Dive School vendors, whilst progress with further legal action associated with the vendors of Quantum is awaiting the outcome of the TEC investigation.

Following implementation of the above initiatives, Intueri will be well positioned to continue delivering quality learning opportunities through a stronger and more streamlined group of New Zealand colleges.

#### **Australia: VET Student Loan Scheme**

As advised previously, the Australian Government has recently announced significant changes to vocational education funding, with the cancellation of the existing VFH scheme and a new VSL programme to be commenced in 2017. This will have a significant impact on all current VFH providers, with new and expanded eligibility criteria, and a reduced number of approved courses with maximum loan caps at approximately half of Conwal's current fee levels. Intueri notes that Conwal's average course fees are lower than market averages and all of its programmes have been included within the new scheme.

Along with all other private providers, Intueri's Australian online college, Conwal, will have to apply to enter the new VSL programme. Conwal is planning to apply for provisional approval for 2017 although given the current regulatory environment and audit status, provisional approval is uncertain at this point in time. Conwal will assess the commercial feasibility of the new VSL programme, as well as identifying and considering new non-VSL revenue opportunities.

#### **Australia: ASQA Audit Response**

Intueri's response with regard to the ASQA audit findings is progressing well for submission to ASQA by 6 November 2016. Intueri has already completed rectification of a number of assessed areas of non-compliance and continues to believe that deregistration of OCA or Conwal would be unwarranted. Conwal is seeking to retain its Registered Training Organisation (RTO) registration and teach-out its existing VFH students in 2017. As previously advised, Intueri intends to consolidate all programmes under a single RTO, Conwal, and intends to de-register OCA as an RTO in the future. OCA provided just 5% of the OCA Group revenues in 1H 2016.

**Australia: DET Funding**

Conwal has received a copy of the DET final audit report. The DET has advised that it is now proceeding with the reconciliation of 2015 VFH student data, prior to confirming outstanding 2015 payments. Conwal will also be seeking a response to its request for an uplift in 2016 VFH funding to cater for continuing student tuition fees.

**FY 2016 Financial Guidance**

Intueri has recently ceased enrolments within Quantum, and enrolments have also been scaled back at OCA Group in Australia, in response to forecast funding and funding uncertainties respectively. This, plus soft enrolments over the past three months, will lower 2016 forecast revenue. Whilst cost initiatives are ahead of target, they are not sufficient to offset the enrolment shortfall and one-off costs associated with staff restructuring, legal and advisory expenditure. Intueri now expects 2016 underlying EBITDA to be approximately \$9.5m (previously \$15m), if the A\$6m uplift in the 2016 VFH funding cap is approved.

Conwal continues to receive its normal 2016 monthly VFH payments, which are sufficient to maintain current activities. These activities will not be affected if the uplift is not approved, although the amount of bank debt able to be repaid by Intueri will be impacted.

The current financial outlook will require Intueri's banking arrangements to be amended by the end of 2016, and Intueri is working closely with its bank to achieve this. Intueri continues to maintain a close relationship with its banking partner who remains supportive of Intueri's strategy of restructuring its New Zealand operations.

While 2017 guidance cannot be given at this point in time, pending further clarity on the Australian operations, Intueri is forecasting a stronger year for New Zealand in FY 2017, with a \$5m to \$6m uplift in FY 2017 EBITDA due to the Dive School divestment, Quantum and D&A restructuring, the benefits of the amalgamation, and other cost initiatives.

Chairman of Intueri, Chris Kelly, commented: "While we are still waiting for clarity around the commercial outlook and opportunities for our Australian business, the reorganisation of our New Zealand portfolio and cost saving initiatives are progressing well. We have a number of well performing domestic colleges and will be moving into 2017 with a more efficient, streamlined New Zealand operation. There is a growing demand for qualified workers in many vocational sectors and Intueri's schools continue to deliver relevant and well regarded learning opportunities for students."

A summary of Intueri's 2H 2016 initiatives and progress is attached.

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**For more information, please contact:**

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**About Intueri:**

Intueri Education is a New Zealand headquartered group of private training establishments delivering vocational education to students in New Zealand and Australia and from around the world. We provide industry-appropriate courses and qualifications across a diverse range of industries, working closely with those industries to ensure training remains relevant and employment-outcome focused. Intueri is dual listed on the NZX and ASX under the ticker symbol IQE.

## INTUERI 2016 SECOND HALF INITIATIVES AND PROGRESS

As at 28 October 2016

	Second Half 2016 Completed	Second Half 2016 Ongoing
<b>New Zealand Operational</b>	<ul style="list-style-type: none"> <li>Review of Domestic portfolio, followed by rationalisation and restructure of both Quantum and the Design and Arts College</li> <li>Phasing out of Quantum and ITTI brand names, with programmes to be delivered under Academy NZ</li> <li>Amalgamation of a number of NZ colleges into a combined Private Training Establishment (PTE), Intueri Education New Zealand Limited (IENZ), which will provide scale benefits and funding flexibility</li> <li>Centralisation of Domestic Recruitment function and implementation of a new Customer Relationship Management (CRM) system</li> <li>Committed resources and developed in-market presence to the long term opportunity in Indian sub-continent as well as building demand in China and South East Asia</li> </ul>	<ul style="list-style-type: none"> <li>Finalise the divestment of the Dive School by end of 2016</li> <li>Proposed relocation of Elite Newmarket campus to central Auckland campus shared with Cut Above</li> <li>Implement further scale and administration benefits for the amalgamated IENZ</li> <li>Recruitment and Marketing activities heavily focused on optimising Jan / Feb 2017 enrolments</li> <li>Review Indian sub-continent Visa processing arrangements to lift application success rates</li> <li>Proposed further changes to Quantum being determined and implemented</li> </ul>
<b>Australia Operational</b>	<ul style="list-style-type: none"> <li>Drive new enrolments across all revenue streams in Q3, and increased focus on student support to assist with learner progression</li> </ul>	<ul style="list-style-type: none"> <li>Complete ASQA audit rectification response and submit by 6 Nov 2016</li> <li>Awaiting completion of 2015 VFH reconciliation, and resolution of approximately A\$4m outstanding payment, plus DET response to request to increase 2016 VFH funding cap by A\$6m, following reconciliation of 2015 student data</li> <li>Cease marketing and scale back VFH enrolments prior to cessation of VFH scheme at end of 2016</li> <li>Submit 2017 VSL provisional access request</li> </ul>
<b>Cost Savings and Capital Structure</b>	<ul style="list-style-type: none"> <li>Cost saving initiatives ahead of target (\$6m in 2016 vs \$5m target; and \$12m in 2017 vs \$8m target)</li> <li>Ongoing discussion with Bank and received letter of support</li> </ul>	<ul style="list-style-type: none"> <li>Continue to identify and implement further cost saving initiatives.</li> <li>Debt reduction and cost control</li> <li>Ensure banking arrangements accommodate Intueri's financial outlook</li> </ul>
<b>Regulatory</b>	<ul style="list-style-type: none"> <li>NZIS maintained its Category 1 EER status</li> <li>TEC audit of NZCM identified no key findings or recommendations</li> <li>TEC review of ITTI: draft report received</li> <li>DET audit of Conwal completed</li> </ul>	<ul style="list-style-type: none"> <li>Quality mandate will remain a key thread in IQE initiatives</li> <li>TEC audit of NZIS scheduled for November</li> <li>Expect to conclude TEC investigation of Quantum. Intueri assumes that this will assist the SFO with their enquiry.</li> <li>Confirm VFH and VSL status</li> </ul>
<b>Governance, Leadership and Legal</b>	<ul style="list-style-type: none"> <li>Rod Marvin appointed Interim Group &amp; New Zealand CEO and Michele La Riviere Interim CFO</li> </ul>	<ul style="list-style-type: none"> <li>Recruitment of a permanent CEO (on hold)</li> <li>Establishment of a new Executive LTI scheme (on hold)</li> </ul>

	<ul style="list-style-type: none"><li>• Separate Leadership teams established for New Zealand and Australian Operations. Rod Marvin leading New Zealand and Sean Steele, CEO OCA Group, leading the Australian operations</li><li>• Director Nico Marx undertook a three-month consultant contract</li></ul>	<ul style="list-style-type: none"><li>• Assess and progress legal matters against previous vendors of Quantum and the Dive School</li></ul>
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