Evolve Education Group Limited

Chair address

Annual Shareholders Meeting 29 June 2021

The financial year ended 31 December 2020

In reviewing the financial results for the year ended 31 December 2020 I will talk mainly 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 year (from March to December), the most recently reported audited result is for the nine months to December 2020. For the nine months ended 31 December 2020 the Company made an underlying EBITDA of $16m. However, to provide a more meaningful comparison management has also provided the unaudited results for the twelve months to December 2020.

This shows that Group underlying EBITDA increased by $10m from the twelve months ended March 2020 to the twelve months ended December 2020. An increase of $5m in New Zealand and $5m in Australia. Considering New Zealand and Australia separately:

New Zealand

The year to December 2020 was a year of significant disruption for Evolve New Zealand as it was for many organisations globally. Some of the impacts of Covid-19 on Evolve were.

- All children and staff remained safe and well – this was our number one priority.
- All NZ centres were fully closed during April 2020. Reopening gradually under restrictions with reduced occupancy and not fully open until June 2020. Occupancy levels in many of our centres unfortunately did not return to pre-Covid levels during 2020. This is particularly so in CBD and CBD fringe centres where working from home and border closures have had the largest impact.

- Ministry of Education funding was received in full during Covid-19 lock-down periods but was down $4m against the March 2020 year due to lower occupancy even once Covid lock-downs were lifted.
- No parent childcare fees were charged during lock-downs – this and the continued Covid impact on attendance resulted in a significant loss of revenue of $11m across the full year.
- All New Zealand staff were kept on full pay throughout the 2020 lock-downs – our dedicated and resourceful teachers continued to engage with children and families during the closed periods through online platforms and phone calls.
- A one-off $12m NZ government wage subsidy was received in April 2020. It should be noted that no additional wage subsidy was able to be claimed in respect of the Auckland regional lockdown in 2020 (nor those in 2021). This impacted Evolve more than other providers as Evolve is over-represented in Auckland – Auckland makes up 42% of the company's NZ licensed places.

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

- Refresh and upgrade of centres
- Piloting enhanced offerings at centres (music and science programmes)
- Regional Resource Coordinators to manage staffing challenges brought about by sector wide ECE teacher shortage due to closed borders
- Additional Area and Regional Quality (Curriculum) Managers to enhance quality of offering to families
- Closure or sale of less profitable centres

Australia

- All Australian children and staff kept safe and well (although some Covid transmission in one Melbourne centre)
- Australian centres also affected by closures and reduced occupancy during Covid.
- Strong Australian government support was received and allowed most staff to be kept on full pay.
- The Company reported a full year of earnings from its 10 centres acquired in the previous financial year.

The Australian acquisition strategy was commenced in 2019 with the objective of broadening and strengthening the Company's earnings. While the Australian acquisition strategy was put on hold during the worst of Covid-19, we have recently recommenced our programme and we intend to continue to acquire more centres in Australia. Earlier this month we completed the latest tranche of acquisitions – this brings the total number of Australian centres to 20 and this now represents 18% of the Company's total licenced places.

During the year, the Company raised A$35m through a bond issue that enabled us to pay back all outstanding bank debt. This provided us with the financial support to recommence our Australian growth strategy. At the end of last month the Company had $55m cash on hand.

Dividend

The Company has not paid a dividend since the March 2018 year. We believe given our strengthened capital structure it is appropriate to consider the recommencement of the payment of dividends. The directors' current intention is to pay a dividend of 1c per share in September 2021. An announcement on this will made in due course.

The current year – FY21

The directors have been cautious in providing financial projections due to Covid-19 uncertainty in the sector and last year we withdrew previous guidance numbers for this reason. However earlier this month we felt it was appropriate to give underlying EBITDA guidance for FY21 and FY22.

The current year's performance will be impacted largely by the following factors:

- Firstly, the continued growth in Australian earnings from recent acquisitions. These are performing well with good occupancy levels across almost all centres. Our Australian centres average twice the annual revenue of our New Zealand centres. They correspondingly have substantially higher profitability per centre.
- Secondly, the challenging post-Covid conditions in New Zealand which are impacting on occupancy in some centres. This includes challenges such as regional lock-downs, working from home, and the impact of the closure of the NZ borders on family absences and teacher availability. Despite these challenging conditions, it should be noted that almost half our centres have recovered from the 2020 full lock-down period and have either returned to or have exceeded pre-Covid occupancy. Some

significantly so. Our current overall NZ occupancy is running at around 70% - and while this is at a similar level to the same time last year, it is still 3% below the immediate pre-Covid period on a same-centre basis.

We expect underlying EBITDA for the year ending 31 December 2021 to be between NZ$16m and $18.5m. We expect underlying EBITDA for the year ending 31 December 2022 to be between NZ$23m and NZ$25m. This however assumes no significant further disruption from Covid-19 in New Zealand or Australia.

Note that FY20 (Dec) or FY21 results are not normalised for the net impact of Covid-19 and Covid-19 support payments. Covid costs to the business have of course been incurred across both FY20 and FY21, yet government compensation by way of wage subsidy and continued Ministry of Education funding during restricted attendance periods was received only in respect of the FY20 reporting period.

I should also point out at this stage that the change in balance date has resulted in a six month period (January to June) that is more seasonally skewed. The first half results (which will be released in late August 2021) will be appreciably lower than the second six months of the year.

Acknowledgement

I want to acknowledge the huge support we have received from our 2,200 employees particularly through the last 15 months. These have been difficult and anxious times and our employees ensured at every step 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 dedication and commitment.

Evolve announced the retirement of Tim Wong as CEO NZ on 29 March 2021. Tim had spent most of his time here in New Zealand separated from his family during Covid. The Board wishes to thank Tim for his tireless work since his appointment in October 2019.

I would also like to thank our many 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 of course, thank you to you - our many shareholders for your support. Your directors will continue to work hard to strengthen the New Zealand business and implement our Australian growth strategy. Successfully achieving these objectives will ensure we drive sustainable earnings growth into the future.