

17 August 2017

Evolve predicts weaker first half, stronger second half, reaffirms dividend

Trading conditions experienced by Evolve Education Group Limited (Evolve) for the FY18 year to date have been softer than anticipated in both the Centres and Home Based Divisions.

Occupancy levels in the Centres Division were strong through to the end of FY17 but have been consistently 2% short for the FY18 year to date, compared to the equivalent period in FY17. This shortfall is not specific to any particular location and is characterised by a relatively small reduction in enrolled hours per centre.

Evolve is firmly focused on recovering the ground lost in FY18 to date as soon as possible. An extensive programme of actions to lift enrolled hours is under way with the aim of bringing average occupancy levels back up to those experienced last year. The actions include increased promotional activity to lift the number of enrolled children and increase enrolled hours per child (particularly on the lower demand days at either end of the working week), a greater emphasis on continued retention of staff and continued engagement with families. Cost saving initiatives are also underway.

As a result of these actions the board is confident that monthly occupancy levels and operating margins will increase from current levels during the balance of FY18, though the exact timing of the anticipated recovery is hard to estimate with precision.

The reported Net Profit After Tax for the six months ending 30 September 2017 is expected to be circa \$7m. This result will be adversely impacted by the following two items. Excluding these items the estimated comparable half year NPAT would be \$7.6m, 14% lower than the prior year period;

- An anomaly of the FY18 calendar means that the current year will have 4 fewer revenue generating days than the prior year, largely due to the phasing of public holidays between FY17 & FY18. The combination of reduced revenue, but with no corresponding reduction in wage costs, will adversely impact H1'18 NPAT by \$0.4m and FY18 NPAT by approximately \$0.8m relative to the prior year. Most of this impact is temporary and will reverse in FY19.
- The FY18 results will also include the NPAT drag from early trading losses from the development programme, being \$160k for the first half (2 centres) and \$200k for FY18 (4 centres).

The full year NPAT is expected to be \$14m-\$15m, including the impact of the above items. Evolve will provide an update on occupancy levels, trading conditions and an outlook for the FY18 result with its half year announcement in November this year.

The board and management are confident that the profitability of the business will revert to more normal levels in FY19. As a measure of this confidence the board anticipates keeping the FY18 dividend unchanged from the prior year at 2.5cps for both the first and second half of FY18.

For any further inquiries please contact:

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