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Evolve Education Group Full Year Earnings Announcement

Evolve Education Group (Evolve) today released its results for the financial year ended 31 March 2018.

Net profit after tax and before non-recurring items[1] was $12.0 million and was in-line with the guidance given at the February earnings update. This compares with $15.9 million recorded in the prior year. The company also incurred non-recurring expense items of $16.2 million after tax in the year, and this resulted in a net loss after tax of $4.2 million.

Non-recurring items were the cost of the settlement reached with the Inland Revenue Department on the historical Porse GST issue ($3 million), and the after-tax impairment expense of $13.2 million relating to the Home-Based Division and the closure of one early childhood education centre.

Earnings included $0.5 million in start-up losses on three new development centres, two of which commenced operations in the past year.

The final dividend for the year is 2.0 cents per share, compared with 2.5 cents per share paid as a final dividend in respect of the 2017 financial year. The dividend will be fully imputed for New Zealand taxation purposes and will be paid on 28 June 2018.

Total revenue of $159 million increased by $7.3 million or 4.8% on the prior year. This was driven by new centre acquisitions and the development of new centres, partly offset by a decline in enrolments in both Centres and Home-Based Divisions. Occupancy in the Centres division was 2% lower, on average, on a comparable basis, and enrolments in the Home-Based division were also lower than the prior year.

Earlier in the year seven existing centres were acquired, and in addition two new centres were developed and opened with occupancy rates lifting in line with the business plan. Evolve continued to take a cautious approach to centre acquisitions with no new centres acquired in the second half of the year. Evolve had a total of 129 centres in operation as at 31 March 2018, up from 121 at the end of the prior year.

[1] Net profit after tax and before non-recurring items is defined as net profit after tax and before the Porse GST settlement amount of $3 million, and the after-tax impairment expense of $13.2 million relating to the Home-Based Division and the closure of one early childhood education centre.

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Commenting on the result, Mark Finlay, Chief Executive Officer said:

"Overall, our occupancy was two per cent lower compared with a year ago, and this had a negative impact on our earnings performance particularly as we maintained our staffing levels in anticipation of higher enrolments. More than half of our early childhood education centres continued to have strong occupancy levels in excess of eighty per cent, but across the total business we did experience a reduction in occupancy. While occupancy levels do tend to fluctuate, this aspect of our performance was disappointing.

"We will continue our focus on attracting and retaining qualified teachers, as this is a critical element in maintaining high quality early childcare education services, enrolments and occupancy levels," Mr. Finlay said.

Evolve chair Alistair Ryan said that the 2018 year had been one of transition.

"After several years of significant growth through the acquisition of early childhood education centres, we have in the past year been consolidating our operations. Following the rationalisation of our portfolio of brands from over sixty to just six, we have now started to develop our own centres and reduced our emphasis on acquiring existing businesses. The early results from our own centre developments have been encouraging.

"While we are disappointed that the actions we have taken to lift enrolments and occupancy rates have yet to deliver the improvements anticipated, we understand that this will take a longer period of time to be fully achieved. We are clear what the drivers are for improving occupancy levels, and these include a consistent high-quality experience for children and their parents, well-maintained and fully-equipped facilities, and teachers who are highly engaged and well supported. It is in these areas that we will be continuing to focus our efforts in the year ahead.

"A further area of focus for us will be our cost base. In recent times the industry has had to cope with rising costs which have not been offset by commensurate increases in funding from the Government. While we welcome the recent announcement by the Government that payments for early childcare education are to increase after having been fixed for the past four years, we are disappointed that there has been no recovery of four years of backlog.

"Government funding is an important revenue stream for the company, parents and our teaching staff, and we are encouraged that the new Government has recognised that the early childhood sector has been underfunded for some time and is signalling an intention to provide better support going forward. It's clearly in New Zealand's best interests to have an early childcare education system that is appropriately funded and is able to attract and retain qualified and talented teachers," Mr. Ryan said.

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