

31 July 2018

EVOLVE MARKET UPDATE

Annual Shareholders' Meeting will provide strategy update with new CEO Rosanne Graham

Evolve Education Group Limited (Evolve) (ASX, NZX: EVO) advises that the fourth annual shareholders' meeting will be held this afternoon at 3pm in Auckland. At the meeting, Evolve's Chief Executive Officer Rosanne Graham will address shareholders for the first time since commencing with the company on 2 July 2018.

Rosanne will outline the strategic priorities she will be pursuing with the senior management team. These priorities are centred around four key areas: employee engagement, family departures, property management including centre portfolio mix, and brand and marketing effectiveness. Pursuing these strategies will require additional resource in the management structure, and greater investment in central resources to drive improved earnings performance over the medium to long term. Further detail on each of these strategies will be provided at the meeting.

Outlook and Earnings Guidance

In the current circumstances, with a new CEO and only four months into the financial year, it is difficult to provide specific guidance as to potential earnings for FY19. Furthermore, the board of Evolve is of the view that the current financial year is less relevant to the performance of the company than the two-year period thereafter.

The occupancy decline experienced during the 2018 financial year has continued into the current year. In FY18 average occupancy across the base network of centres was down 2% points from 82% to 80%. This occupancy decline has continued by a similar magnitude in the current year. Evolve's business model is extremely sensitive to small changes in occupancy levels, given the fixed nature of the cost base, particularly staffing and rents.

The strategies outlined by Rosanne are intended to arrest this decline in occupancy and regain lost ground. Those actions will then take some time to positively impact results and there will inevitably be some additional operating expenditures needed in order to secure better revenue performance. Evolve expects that performance will start to improve once momentum around enrolments and occupancy has been achieved, and results are expected to be tracking better in the final quarter of FY19 and on into FY20. What cannot be accurately forecast at this time is how soon the remedial actions can deliver stronger earnings.

However, Evolve is committed to being transparent with its shareholders despite the uncertainties and volatilities that confront the company. The company's current best estimate is that, if the business tracked through to the end of FY19 at current occupancy levels (and excluding additional expenditures for remedial strategies), underlying earnings (Operating EBITDA) for full year 2019 would be in the order of \$3m-\$5m down compared to last year's \$21.6m.

It is stressed that this best available estimate will inevitably be subject to variation and the company will be looking to provide more robust guidance at the half year result in November. Furthermore, the underlying business potential is not necessarily well represented by the potential earnings for the specific 12-month period ending in March next year.

Evolve advises ongoing interest from potential owners of the company

Evolve also advises that the company has received enquiries from a number of interested and credible parties about the potential value of the company under different ownership over the past nine months. As a consequence, the board and members of senior management have spent time responding to queries from a range of parties about the performance and medium-term outlook for the business.

Evolve believes that there has been, and continues to be, credible interest in the ownership of the company, although there is no certainty that any transaction will eventuate from this interest. The company is not in a position to say more than this at this stage, or to comment on any particular rumours. Should anything tangible eventuate it would be weeks rather than days away.

ENDS

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