

Evolve Education Group Limited

CEO Address

Annual Shareholders' Meeting, 31 July 2018

Thank you, Alistair, and good afternoon ladies and gentlemen.

Having started as Chief Executive of Evolve just four weeks ago, I have only had a short period to get to know the company and to assess its competitive position and opportunities. Because of the timing of this meeting, I am talking to you before many of the staff at Evolve - which is not ideal. However, it is my intention to continue to get around as many centres as possible in the coming months to talk to staff about the plans we have to achieve staff and family retention.

I have joined Evolve from the private tertiary education sector. One of the things that attracted me to Evolve was the company's position within the early childhood education sector, and the opportunities within the sector itself.

While the performance of the company in recent times has clearly failed to meet the expectations of its shareholders, my own assessment is that there is nothing strategically flawed in the sector or in Evolve's business model. The performance to date has been impacted by mixed execution against some key measures, which means we have not been able to deliver on the synergies that our position as a large-scale operator should enable us to derive.

We have a lot to do – but as Alistair has already stressed, we are clear on what we need to do to address our performance.

One message I would like to get across today is that there is a lot of talent within Evolve and a large number of very capable people committed to fixing the issues and making the organisation successful. Having visited a dozen Evolve centres so far, I have been extremely impressed by the calibre of our teachers and the quality of the early childhood education service that they are providing. There is a very clear sense in all of our centres that our staff's core focus and passion is to deliver outstanding education and care to our children and families. From what I have seen to date, we do that exceptionally well.

Evolve is very lucky to have this level of dedicated and capable staff and we need to do more to recognise their efforts within our organisation.

As I go on in this presentation to discuss the things that need to be improved, I do want to draw a very clear distinction between the high-quality service provided to our children and families, versus the operational practices that need to be improved.

We have a solid number of very high performing centres and therefore the comments today – while general in nature – apply to a smaller proportion of centres that we need to work with to offer better support and to lift their overall success and performance.

To achieve the required operational improvements, we need to invest in additional capability at the management level. If we get the right team and focus on getting the basics right, then there is plenty of opportunity for Evolve to have a very positive future.

Alistair has provided a good summary of the performance issues impacting Evolve. In terms of a fuller diagnosis of the company's performance issues, I would highlight the following areas:

1. Our occupancy is declining due to an increase in children departing compared to last year
2. Our largest cost item – the wage to occupancy ratio is too high in a number of centres – and there is inconsistent management of the issue across centres
3. Our pricing and fee structures, which account for around 30% of revenues, need to be more actively managed with a greater strategic rationale
4. Many of our centres have not been well maintained from a property perspective, albeit work to fix this has commenced
5. A high proportion of our people are disengaged because communication throughout the business has not been clear and actions needed to fix issues as they have arisen have not been well executed
6. Our brands need to be better defined from a customer perspective
7. Our marketing has room for improvement as it is currently highly impacted by the level of engagement of individual centre managers in the marketing process
8. Staff turnover is high at around 33% and this has an enormous negative morale and cost impact
9. We have a mixed reputation with key stakeholders because of inaction in some areas
10. We are retaining centres that, if we were to divest them, would lead to an immediate improvement in earnings.

In terms of addressing these issues, I am proposing to tackle them on four key fronts: employee engagement, family departures, property management including centre portfolio mix, and brand and marketing effectiveness. To do so will require additional resource in the management structure, and greater investment in central resources to enable better delivery of our strategic priorities and earnings performance.

Let me touch on these areas now in greater detail.

Staff Engagement and Turnover:

One of the biggest issues that the company needs to address is its unacceptably high level of staff turnover and low levels of employee engagement. Our centre staff have been asked to embrace change - from their previous ways of operating - to Evolve's processes and procedures but they don't necessarily see the value or the support from being part of the large company.

Currently, we are unable to communicate with all our staff directly and we rely on centre managers to disseminate any and all news. Staff who are engaged tend to be so because of the centres that they work in, not because they are part of Evolve. Ultimately, we want our people to understand and appreciate the value proposition of being an Evolve employee.

As Alistair has already highlighted, our current high staff turnover doesn't just cost the business; it also involves the loss of families because staff turnover leads to family turnover. On the cost front, there are both direct and indirect impacts of this high level of turnover. A direct impact can be seen in salary increases because there's a teacher shortage so the next person can cost more than the person departing. In terms of indirect costs, the centre manager is taken away from her duties to "on-board" the new staff member, and centre managers can end up teaching themselves because we can't fill vacancies. Ultimately centre managers can spend a lot of time in the recruitment process away from what we want them to be doing.

Equally, it's hard to attract talent and establish a strong recruitment brand when current staff and "word of mouth" are your sources of referral and a large number of our staff have either left or are thinking of leaving. In a labour market shortage this just makes recruitment that much harder.

There are a number of actions I will be undertaking with the team to address our staff engagement and turnover.

Key actions will include the development of a comprehensive people strategy which encompasses all aspects of staff engagement, professional development, clear career pathways and individual and team success.

I will be using technology to ensure that we can communicate directly to every single Evolve staff member and have a mechanism for regular staff feedback so that staff feel heard.

I will be moving rapidly to fix the things that are constant aggravations to centre staff and have not been fixed for some time, such as property and maintenance issues. Allied to this will be building a support office structure that ensures we have multiple touch points between our central operations teams and centre staff, such that our centre staff can see that we are demonstrably adding value to their centres.

A further priority will be a focus on engagement at the centre manager level, as they are the face of Evolve to all our centre staff and our families. We also need to better clarify the role focus and responsibility at the area manager level and ensure that they have the tools and support structure to do the job.

Finally, I will be looking to build a strong recruitment brand to improve the attraction of key talent to the organisation.

Increase in Family Departures:

In addition to high levels of staff turnover, we are still seeing too many departures of existing families in some centres. I should stress that we have many centres with very high occupancy and in some cases waiting lists.

Our customer research shows that a key reason for family departures is staff turnover. We know that word of mouth is a key driver for family selection of centres – so every dissatisfied family potentially impacts Evolve's ability to attract more families in that local community.

We have enrolled new families at similar levels to FY18 but we have not acted fast enough to get more new families into the pipeline to combat the increase in departures of existing families. This turnover leads to unplanned higher marketing spend and an increased cost of sale, and underneath this is the reality that an increasing number of families feel that we haven't lived up to our brand promises. This is a problem in an environment where there is a growing number of alternatives for families.

In terms of the priorities in this area, clearly if we can fix the staff turnover we should be able to reduce the problem of family retention.

Beyond this, I will be looking to improve the overall quality of our centres by fixing the property and maintenance issues urgently. We need to provide smart and well-appointed centres and I will be undertaking an audit of centres that need help in displaying their rooms and facilities in the best light.

Over time we will be building a stronger brand story. Currently our customer feedback is largely based on annual surveys – and a small proportion of exit interviews. We are not measuring or gauging regular customer satisfaction to enable us to move quickly to rectify issues. Part of the brand building will therefore see us measuring family feedback more regularly to ensure we are living up to our brand values.

When we are successful we will have built family satisfaction to such a degree that we will be able to reduce our marketing spend (because of referrals) and remove the need to discount because families value their child's well-being and happiness over small differences in price.

Property Management:

As I have already mentioned, we need to lift our performance around the maintenance and capital expenditure programmes for our centres. Many centres are in a very good state of repair. However, in some centres property and maintenance issues have lagged behind over the past two years and most centres have not had a consistent maintenance schedule. As you can imagine our childcare centres are subject to heavy wear and tear, and continual repairs and maintenance are therefore vital to keeping them looking their best.

Our centre staff find this discouraging and view this lack of investment as evidence that they are not valued and that the delivery of good education to the children is not at the top of the mind of the company. Similarly, families are not seeing sufficient investment in centre facilities and the risk is that our places look tired in comparison to new centres in the neighbourhood.

Property is therefore going to be a key area of focus going forward, and responsibility for this has been moved to Evolve's CFO, Stephen Davies. Stephen is in the process of appointing a new property manager and will work with the team to ensure that we have the necessary skills and sense of urgency to resolve the issues.

Beyond the current portfolio, we need to better plan future expansion. We will be tightening up our processes through establishing key criteria for any future acquisitions or developments based on market demand, community profile, location in terms of management ease, ability to provide desirable scale, and competition in the area.

We will also be more actively managing the portfolio of centres and we are developing a list of centres which may potentially be divested using criteria based on relative margins, demographics and geography.

The expected sale of the Porse in-home business will be helpful in focusing our operations on centre-based education.

Marketing and Brand Strategy:

Finally, looking at our marketing and brand strategy activities, there are clearly further areas we can target to lift performance.

Currently, the differentiation between some of our brands is difficult to understand and the brands are not sufficiently distinctive in the marketplace. While much progress has been made in simplifying the plethora of brands down to just seven, there is room to further refine the brand strategy around customer needs/wants – so that the brands resonate with our existing and new families. We will ultimately be looking to achieve better efficiencies and brand effectiveness.

There is room for improvement in our digital platforms, too, and I am keen to see the website further developed for greater ease of use and improved effectiveness. We also need to ensure that there is a greater consistency around the calibre of each centre's webpage, which is not the case today.

Overall, the marketing function needs to be strengthened. It needs to better track the trends in occupancy – on a real time, per centre basis – so that immediate support strategies can be implemented to halt the decline. The marketing function needs to be agile and work dynamically with centre teams as required. We also need to invest in marketing to build the pipeline while we work on stopping the turnover and we need to build stronger brand positioning for the future.

Allied to this is the need to address pricing structures across our centres. Parent fees account for 30 per cent of our revenue and we haven't had a clear strategy around how we have set fees and what we should be aiming to do with fees across the various brands over time. Pricing therefore needs to be set within a strategic framework and discipline around pricing at a centre level needs to be clarified and tightened.

Summary

In summary, I am delighted to be part of the Evolve team. I believe that we have all of the key ingredients needed to build a high quality, very successful child and family focussed early childhood education organisation. A lot of very good work has already been done and we just need to gear up to take Evolve to the next level of performance. In terms of timing, much of what I have outlined here today is not a quick fix. It will take a sustained effort over the next 2 years but we will be very active in monitoring how are strategies are working.

Yes, we have a lot of work to do – but we have a clear picture of what we need to focus on and the steps we need to take to get there.

Ladies and gentlemen, thank you for your attention, and let me now hand you back to Alistair.