

26 August 2021

Half Year Results and Trading Update

Listed New Zealand and Australian childcare and education centre operator Evolve Education Group Limited (ASX/NZX: EVO) has today announced financial results for the half year ended 30 June 2021.

Revenue for the 6 months ended 30 June 2021 of \$74.9m was almost 15% higher than revenue for the statutory comparative period (6 months ended 30 September 2020).

Loss after tax for the 6 months ended 30 June was \$0.52m compared to profit after tax of \$6.23m for the 6 months ended 30 September 2020).

(Note: EVO's balance date changed during calendar year 2020 from 31 March to 31 December)

The table below shows EVO's trading performance for the 6 months ended 30 June 2021. To provide a meaningful comparison, the results for the 6 months ended 30 June 2021 have been compared below with the performance for the 6 months ended 30 June 2020. The impact of the New Zealand and Australia wage subsidies has also been shown separately.

| NZD \$'000s | 1H2021 | 1H2020 | Wage subsidy | 1H2020 adjusted | Variance | % |
|----------------------------|---------------|---------------|----------------|-----------------|---------------|--------------|
| Parent Fees | 26,450 | 16,438 | | 16,438 | 10,012 | 61% |
| Government Funding | 48,441 | 45,475 | | 45,475 | 2,966 | 7% |
| Total revenue | 74,891 | 61,913 | | 61,913 | 12,978 | 21% |
| Centre wages | -43,472 | -28,367 | -13,505 | -41,872 | -1,600 | -4% |
| Centre gross profit | 31,419 | 33,546 | -13,505 | 20,041 | 11,378 | 57% |
| Centre rent | -13,140 | -12,544 | | -12,544 | -596 | -5% |
| Other centre expenses | -8,381 | -7,098 | | -7,098 | -1,283 | -18% |
| Centre EBITDA | 9,898 | 13,904 | -13,505 | 399 | 9,499 | 2381% |
| Corporate costs | -581 | -731 | | -731 | 150 | 21% |
| Support Office cost | -3,853 | -3,169 | -678 | -3,847 | -6 | 0% |
| Underlying EBITDA | 5,464 | 10,004 | -14,183 | -4,179 | 9,643 | 231% |

Note: Underlying EBITDA is a non-GAAP measure used by EVO to report its trading performance. It is calculated on a pre-IFRS 16 basis and excludes gains and losses on the sale or closure of businesses, acquisition and integration costs, impairment losses, restructuring costs and non-operational items.

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As advised previously, the change in balance date has resulted in significant seasonality in the results in both NZ and Australia. One third of full year EBITDA is expected to fall in the first half of the year and two thirds in the second half. This is due to:

- In New Zealand 8 of 11 public holidays fall in the first half of the year. Government funding is not provided for public holidays.
- In Australia older children depart for primary school in February of each year.

This seasonality must be taken into account when extrapolating first half year results.

Centre Acquisition Status

EVO now operates 111 early education centres in NZ and 21 in Australia. Three more centres are subject to conditional agreements with settlement expected within the next 6 weeks in Australia.

Further acquisitions are being pursued in Australia in order to deploy capital raised at the end of March 2021. All recent acquisitions have been acquired on expected EBITDA in excess of \$500,000 per centre.

Trading Update

Set out below is relevant data for the week ended 15 August:

| | Aust (AUD) | NZ (NZD) |
|---------------|------------|----------|
| Centres | 21 | 111 |
| Revenue | \$966k | \$2.35m |
| Centre EBITDA | \$299k | \$327k |
| Occupancy | 84% | 68% |

Occupancy in Australia is expected to grow until late November whilst revenue in NZ will be constrained by the shortage of early childhood teachers.

Guidance For CY21 And CY22

On 8 June 2021, EVO gave the following guidance for Underlying EBITDA:

- 1 For FY21 (ending 31/12/21) - between \$16m and \$18.5m.
- 2 For FY22 (ending 31/12/22) - between \$23m and \$25m.

It was the intention to reaffirm this guidance until the latest Covid 19 lockdowns in NZ, NSW and Victoria.

On 23 August 2021, the Australian government announced further support for the childcare sector for designated Covid hotspots – a 25% increase in Child Care Support payments. EVO Australia has 9 centres in hotspot areas whilst the remaining 12 are open and unaffected by lockdowns.

In NZ, all centres have been closed due to Covid restrictions since 18 August 2021, and EVO has waived parent fees while centres are closed. The wage subsidy which was available in 2020 is still available but the eligibility criteria is more restrictive, and EVO may not qualify unless there are eligibility changes. There is a further support scheme available through the Resurgence Support Payment and EVO is assessing its eligibility as well as the quantum of total support which is available.

Given the uncertainty about both the quantum of support available in NZ and the length of the current Covid lockdowns, the Board has determined that it is prudent to withdraw guidance for CY2021.

However, guidance for 2022 is confirmed at underlying EBITDA of \$23m to \$25m –subject to there being no material Covid 19 related issues in CY2022.

Please refer to the Interim Financial Statements and Investor Presentation which have been released today for detailed information.

For any further inquiries please contact:

Chris Scott
Managing Director
Evolve Education Group Limited
cscott@evolveedu.com.au

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NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

Results announcement

(for Equity Security issuer/Equity and Debt Security issuer)

| Results for announcement to the market | | |
|--|--|--------------------------------------|
| Name of issuer | Evolve Education Group Limited | |
| Reporting Period | 6 months to 30 June 2021 | |
| Previous Reporting Period | 6 months to 30 September 2020 | |
| Currency | NZD | |
| | Amount (000s) | Percentage change |
| Revenue from continuing operations | \$74,891 | 14.9%* |
| Total Revenue | \$74,891 | 14.9%* |
| Net profit/(loss) from continuing operations | (\$516) | (108.3%)* |
| Total net profit/(loss) | (\$516) | (108.3%)* |
| Interim/Final Dividend | | |
| Amount per Quoted Equity Security | It is not proposed to pay any dividends. | |
| Imputed amount per Quoted Equity Security | N/A | |
| Record Date | N/A | |
| Dividend Payment Date | N/A | |
| | Current period | Prior comparable period (restated**) |
| Net tangible assets per Quoted Equity Security | (\$0.23) | (\$0.16) |
| A brief explanation of any of the figures above necessary to enable the figures to be understood | <p>Due to the nature of the Group's business, intangible assets are a major component of total assets. Accordingly, net assets per security is considered a more useful measure. At 30 June 2021 this was NZ\$0.82 (September 2020 restated**: NZ\$0.78).</p> <p>This results announcement should be read in conjunction with the unaudited interim financial statements and interim results presentation, which have been released along with this announcement.</p> <p>*The current reporting period is 6 months to 30 June 2021 and the previous reporting period is 6 months to 30 September 2020. Due to the seasonality of the Group's operations, the percentage changes may not be meaningful.</p> <p>** Comparatives have been adjusted for the effect of the share consolidation in December 2020.</p> | |

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Authority for this announcement

| | |
|---|-----------------------------------|
| Name of person authorised to make this announcement | Edmund Mah, CFO/Company Secretary |
| Contact person for this announcement | Edmund Mah |
| Contact phone number | +64 9 869 2495 |
| Contact email address | edmund.mah@eeg.co.nz |
| Date of release through MAP | 26 August 2021 |

Unaudited financial statements accompany this announcement.

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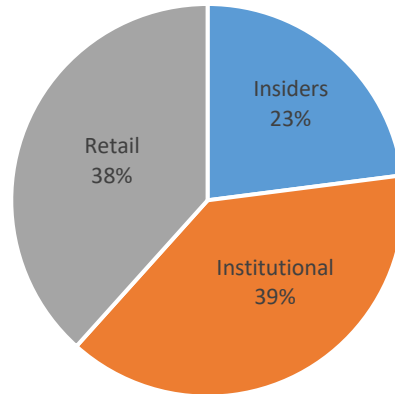
Interim Results Investor Presentation

evolve
education group



CORPORATE SNAPSHOT

Shareholder Distribution



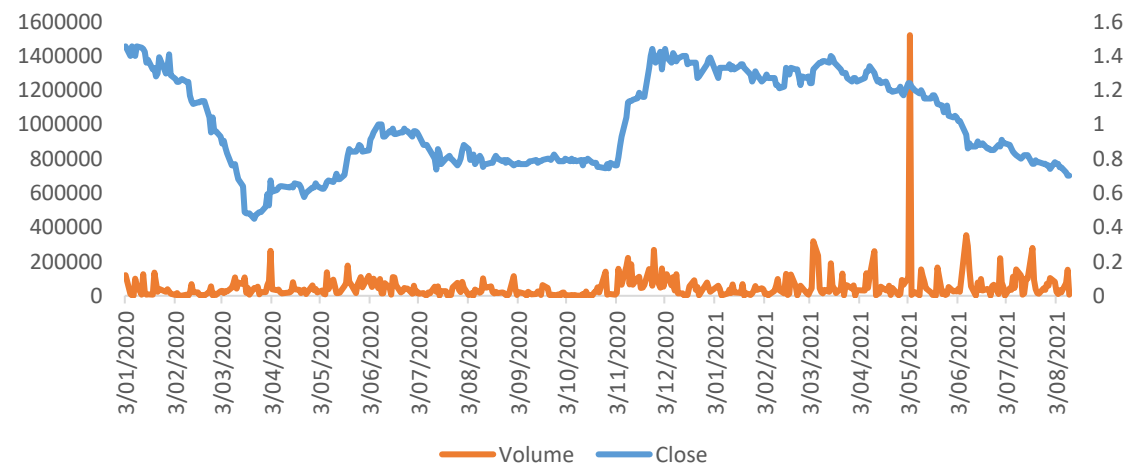
Substantial shareholders (% of total shares) as at 30 June 2021

| | | |
|---------------------------|----|-------|
| J47 Pty Ltd | AU | 16.4% |
| Citicorp Nominees Pty Ltd | AU | 11.1% |
| Upton124 Pty Ltd | AU | 5.1% |
| HSBC Custody Nominees Ltd | AU | 4.9% |
| National Nominees Limited | AU | 4.5% |

Management

| | |
|----------------|----------------------------|
| Chris Scott | Managing Director |
| Edmund Mah | Group CFO |
| Matt Veal | Group Financial Controller |
| Bev Davies | Head of People and Talent |
| Jenny Aldous | Head of Projects |
| Tomas Stehlik | IT Manager |
| Henry Blundell | Head of Property |

Historical Share Price



BOARD OF DIRECTORS



Hamish Stevens - Chairman

Hamish has held independent directorships on several boards since 2010 and is currently Chair of East Health Services, a director of NZX-listed Marsden Maritime Holdings, Radius Residential Care, Pharmaco, and Counties Power. Prior to his governance career, Hamish held senior finance positions with Heinz Watties, Tip Top Ice Cream and DB Breweries. Hamish is a qualified Chartered Accountant and a Chartered Fellow of the Institute of Directors.



Chris Scott - MD and CEO

Chris was the Founder and, from 2010 to 2016, the Managing Director of ASX listed G8 Education which evolved into Australia's largest listed early education and child care provider. During this period, the G8 Education Limited portfolio grew from 38 to over 500 pre-school education centres in Australia (plus 20 in Singapore). Chris was also instrumental in raising over \$500 million in equity capital and more than \$500 million in debt (including Singapore dollar bonds). G8 Education's market capitalisation grew from \$4 million in 2010 to a peak of approximately \$1.9 billion.



Chris Sacre - NED

Chris Sacre is widely regarded and respected within the childcare industry. Chris developed a passion for the industry in early 2007 when he provided financial consultative services, as an Advisory Manager for PricewaterhouseCoopers to G8 Education (formally Early Learning Services) in the lead up to the public listing. After successfully floating the company in 2007, Chris joined G8 Education as Chief Financial Officer. During his time with G8 Education, Chris was instrumental to the growth of the company with over 400 childcare acquisitions, raising over \$500 million in capital and increasing market cap. from \$4 million to \$1.3 billion.



Kim Campbell - NED

Kim Campbell attended the University of Canterbury completing a Bachelor of Arts majoring in Geography. Kim was the CEO of the Employers & Manufacturers Association. Kim is currently a Director of Douglas Pharmaceuticals, Director of EMH Trade Ltd and Chair of Auckland Manufacturers Association.



Adrian Fonseca - NED

Adrian practised as a banking and finance lawyer at global firms Allens and Ashurst before spending 17 years in investment banking in Sydney, Singapore and London with Macquarie Bank, Deutsche Bank and Barclays Bank. In his last role Adrian was head of a Strategic Solutions and Financing Team at Deutsche Bank in Singapore. Adrian is currently the Founder and Managing Director of Oxanda Education - a large Australian early learning centre.

1H21 HIGHLIGHTS

Acquisition Growth

- During the 6 months ended 30 June 2021, the Group acquired 10 centres in Australia.
- The acquisitions have contributed revenue of \$4.5 million and net profit of \$1.3 million to the Group's results.
- A further two centres have settled to date and conditional agreements for two centres have been signed.
- The Group is actively pursuing acquisition opportunities across Australia.





1H21 HIGHLIGHTS (cont.)

Share Placement

- \$23.5 million raised in an institutional share placement in April 2021.
- Funds have been / will be used for centre acquisitions in Australia.

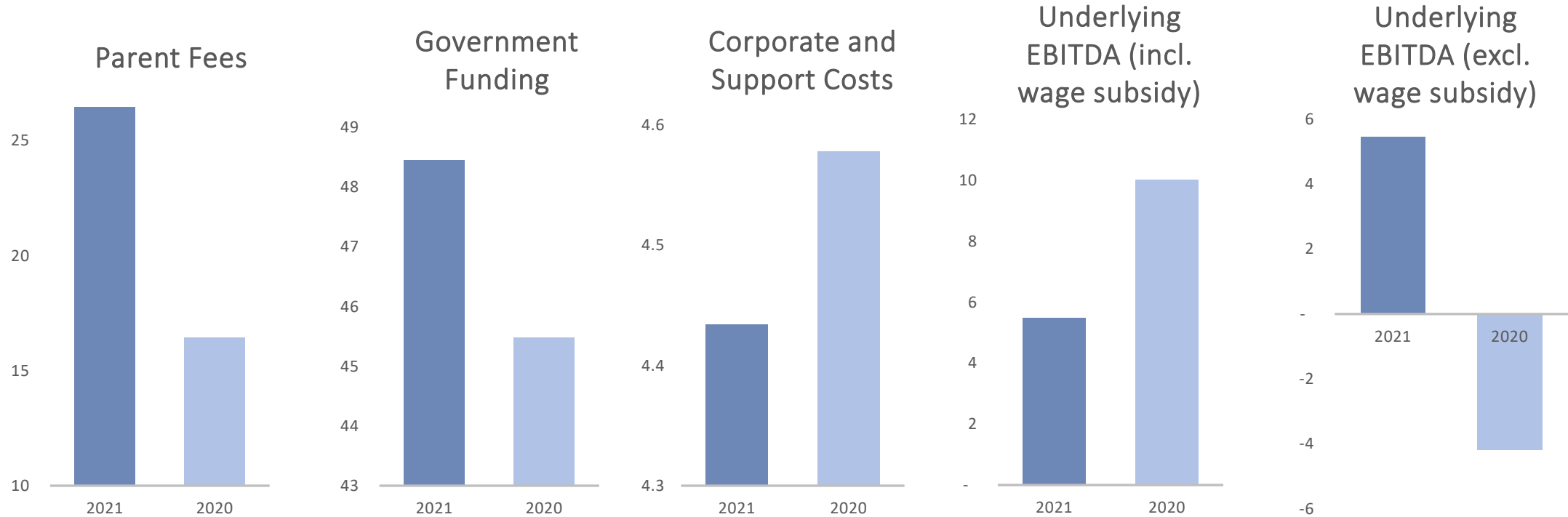
NZ Centre Upgrade Plan

- The Board approved a \$4.5 million centre upgrades capital expenditure plan for CY 2021. Centre upgrade works are progressing well.
- Continued focus on providing high quality centre facilities and resources.

Financial Highlights

1H2021 vs 1H2020

(NZD\$M)



Note - Effective from 1 April 2020, the Group's reporting date changed from 31 March to 31 December. The 1H20 comparative period mentioned throughout this presentation is for the six months to 30 June 2020. This differs to the 2020 interim financial statements that were prepared for the six months ended 30 September 2020. Due largely to the seasonality of the Group's operations, results for the six months to 30 September 2020 were stronger than the six months to 30 June 2020.

Financial Highlights

| NZD \$'000s | 1H2021 | 1H2020 | Wage subsidy | 1H2020 adjusted | Variance | % |
|----------------------------|---------------|---------------|----------------|-----------------|---------------|--------------|
| Parent Fees | 26,450 | 16,438 | | 16,438 | 10,012 | 61% |
| Government Funding | 48,441 | 45,475 | | 45,475 | 2,966 | 7% |
| Total revenue | 74,891 | 61,913 | | 61,913 | 12,978 | 21% |
| Centre wages | -43,472 | -28,367 | -13,505 | -41,872 | -1,600 | -4% |
| Centre gross profit | 31,419 | 33,546 | -13,505 | 20,041 | 11,378 | 57% |
| Centre rent | -13,140 | -12,544 | | -12,544 | -596 | -5% |
| Other centre expenses | -8,381 | -7,098 | | -7,098 | -1,283 | -18% |
| Centre EBITDA | 9,898 | 13,904 | -13,505 | 399 | 9,499 | 2381% |
| Corporate costs | -581 | -731 | | -731 | 150 | 21% |
| Support Office cost | -3,853 | -3,169 | -678 | -3,847 | -6 | 0% |
| Underlying EBITDA | 5,464 | 10,004 | -14,183 | -4,179 | 9,643 | 231% |

- \$14.2m in government wage subsidy and JobKeeper payments received in 1H2020.
- Excluding these subsidies, centre wages have increased by \$1.6m driven largely by the new centres in Australia. This has been more than offset by additional revenue of A\$4.2m generated by these centres. Agency reliever costs in New Zealand have increased in 1H2021 due to staffing shortages across the industry.
- Corporate costs reduced by 21% and support office costs have remained consistent with the comparative period.
- Underlying EBITDA increased by \$9.6 million, adjusted for subsidies received.

Financial Highlights

Balance Sheet

| | Jun-21 | Dec-20 |
|--------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 35,987 | 59,139 |
| Funding receivable | 8,434 | - |
| Other current assets | 3,244 | 2,507 |
| Property, plant and equipment | 7,438 | 7,102 |
| Right-of-use assets | 185,835 | 170,938 |
| Deferred tax assets | 14,044 | 13,022 |
| Intangible assets | 153,682 | 117,697 |
| Term deposits | 4,616 | 4,066 |
| Total assets | 413,280 | 374,471 |
| Trade and other payables | 11,553 | 7,124 |
| Current income tax liabilities | 1,207 | 2,014 |
| Funding received in advance | - | 4,639 |
| Borrowings | 36,515 | 36,137 |
| Lease liabilities | 223,755 | 208,224 |
| Employee entitlements | 9,238 | 6,827 |
| Total liabilities | 282,268 | 264,965 |
| Net assets | 131,012 | 109,506 |



- *The Group was in compliance with all debt covenants during the current and previous periods.*

Portfolio footprint in NZ and Australia

- NZ – 111 centres
- AU – 20 centres



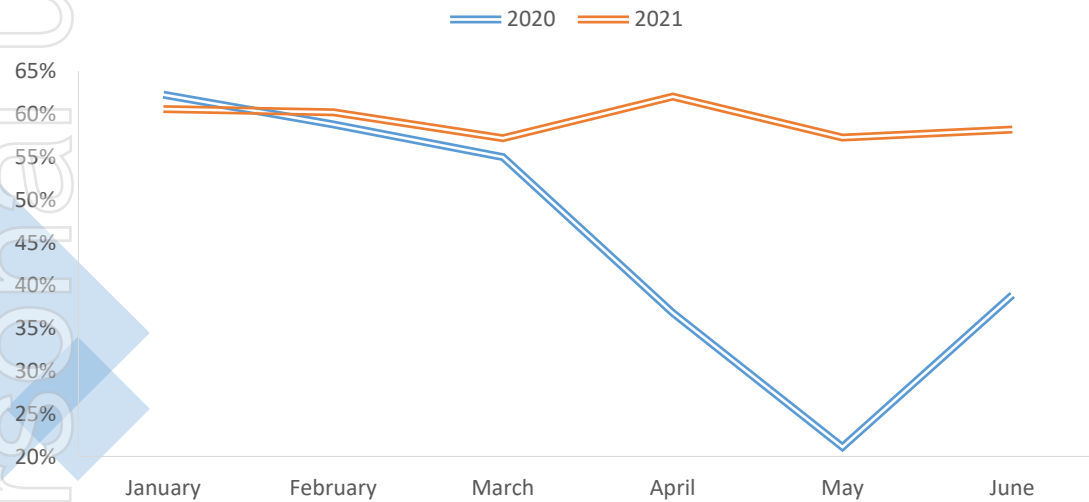
The communities we serve - number of centres by region



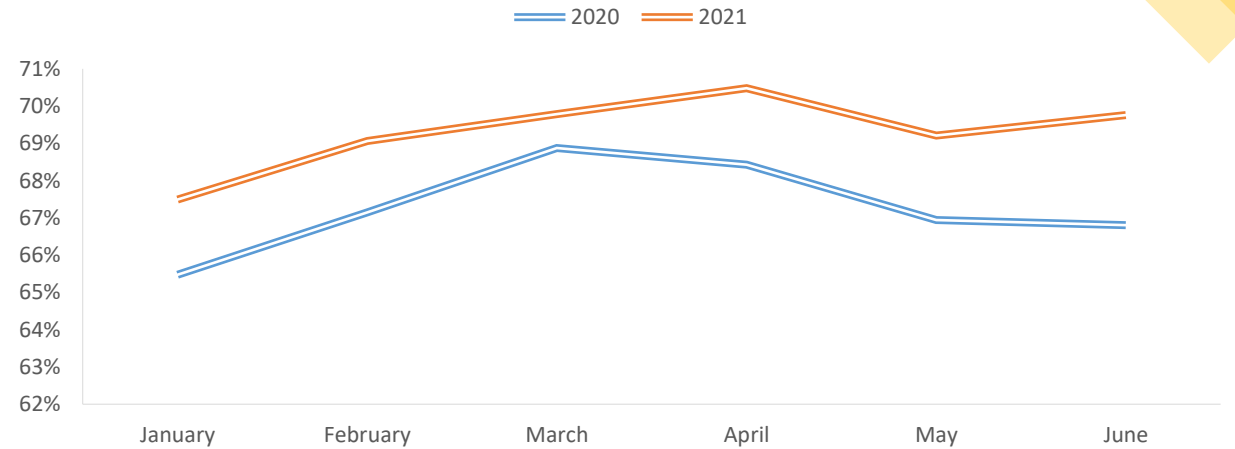
New Zealand

- NZ occupancy averaging 69% in 2021, up 2% from 2020 however has not returned to pre-Covid-19 levels.
- Steady increase in total revenue per FTE per day attributable to fee increases.
- Metrics for 2020 have been distorted by Covid-19.

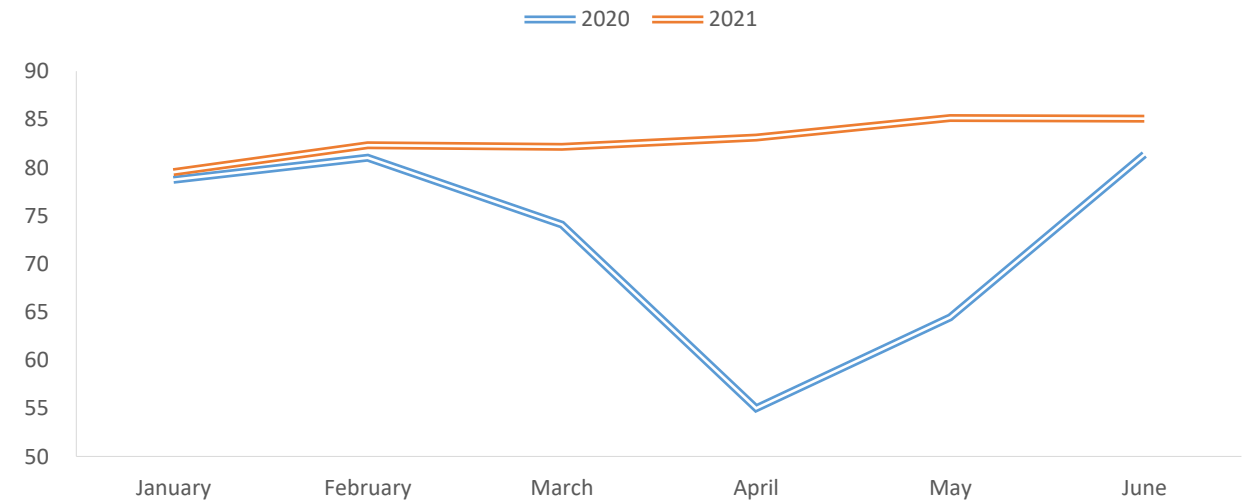
WAGE TO REVENUE RATIO



YTD OCCUPANCY



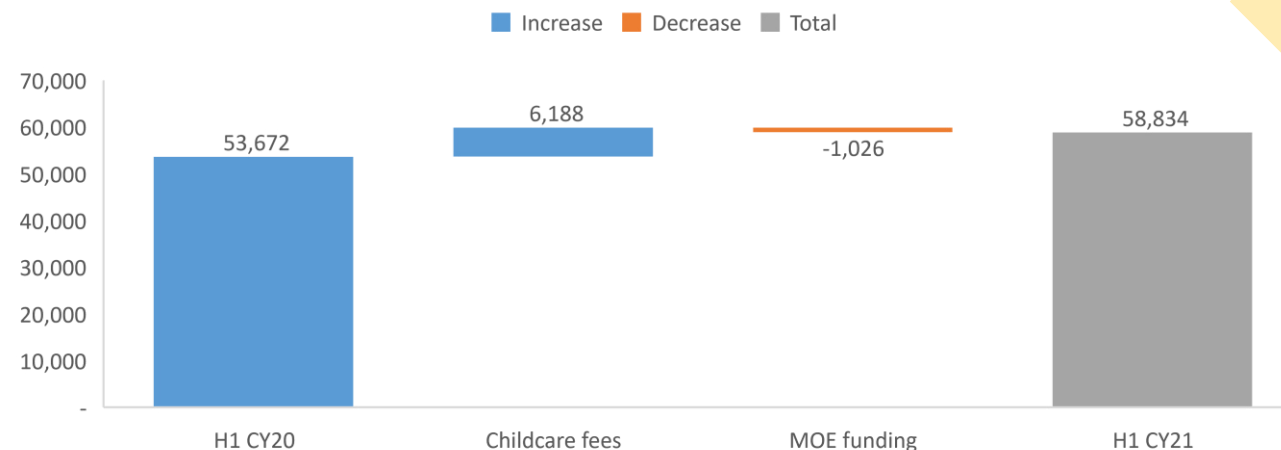
TOTAL REVENUE PER FTE PER DAY



Revenue and EBIT Reconciliation – New Zealand

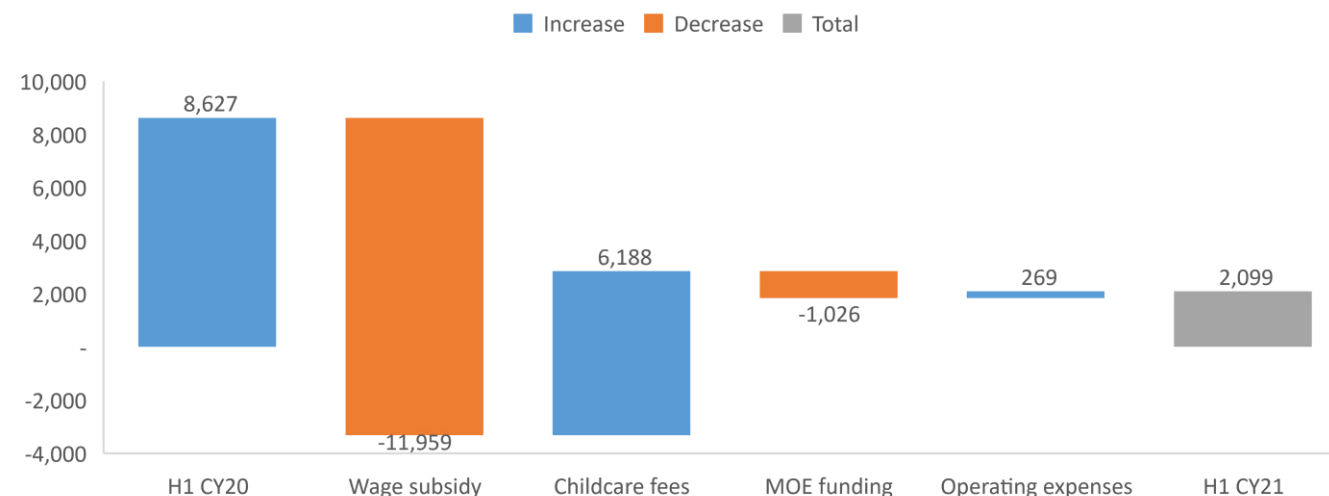
1H CY 2021 Revenue Bridge (NZD \$000's)

- Increase in revenue of \$5.2m (10%) attributable to childcare fees lost in 2020 due to alert level 4 centre closures.
- Teacher shortages have affected our ability to hit higher MOE funding band.
- Decrease in number of centres has also reduced MOE funding.



1H CY 2021 Underlying EBITDA Bridge (NZD \$000's)

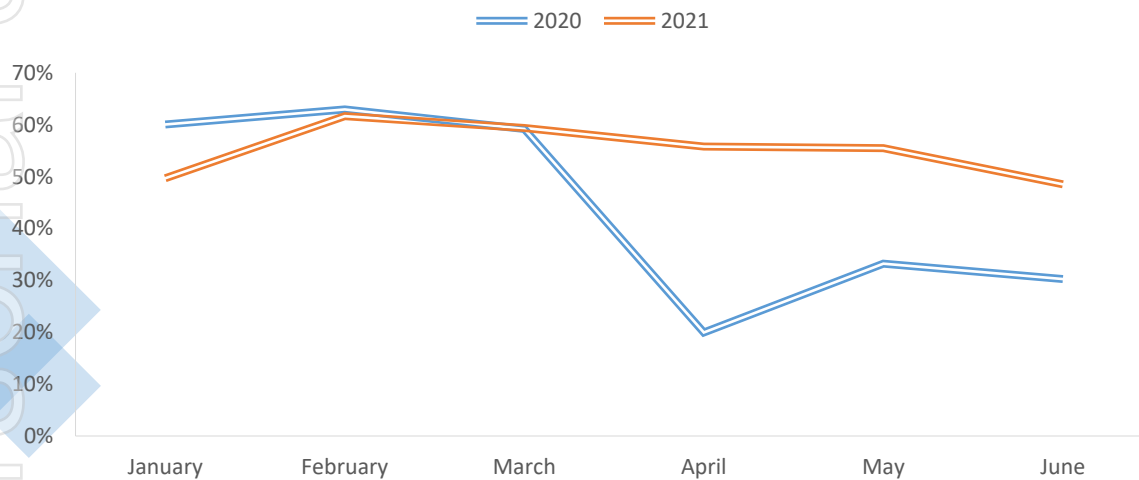
- Underlying EBITDA has decreased by 76% largely due to wage subsidies received in 2020.



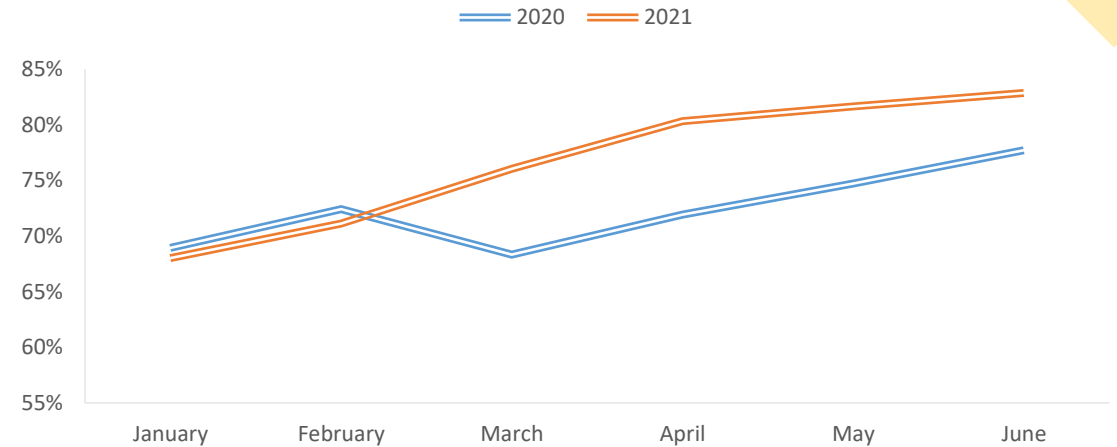
Australia

- Steady increase in occupancy and decrease in wage to revenue ratio in 2021.
- Covid-19 government support measures ended on 31 January 2021.
- Metrics for 2020 have been distorted by Covid-19.

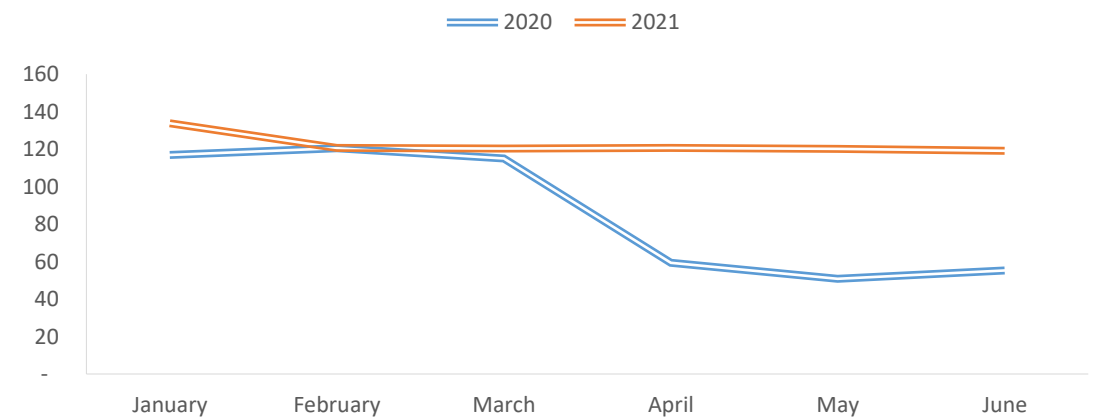
WAGE TO REVENUE RATIO



YTD OCCUPANCY



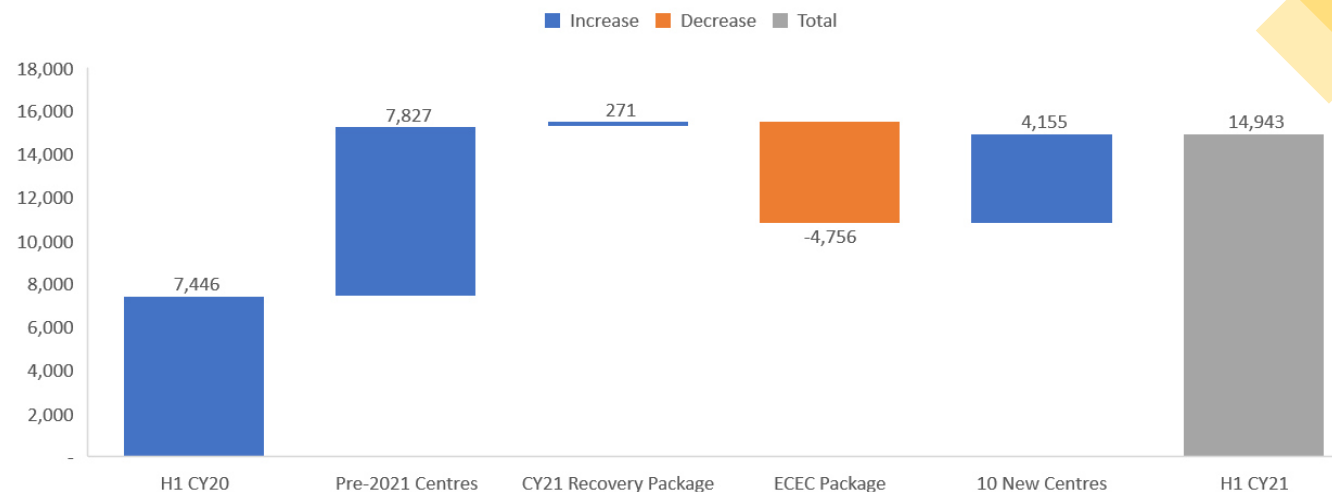
TOTAL REVENUE PER BOOKING PER DAY



Revenue and EBIT Reconciliation - Australia

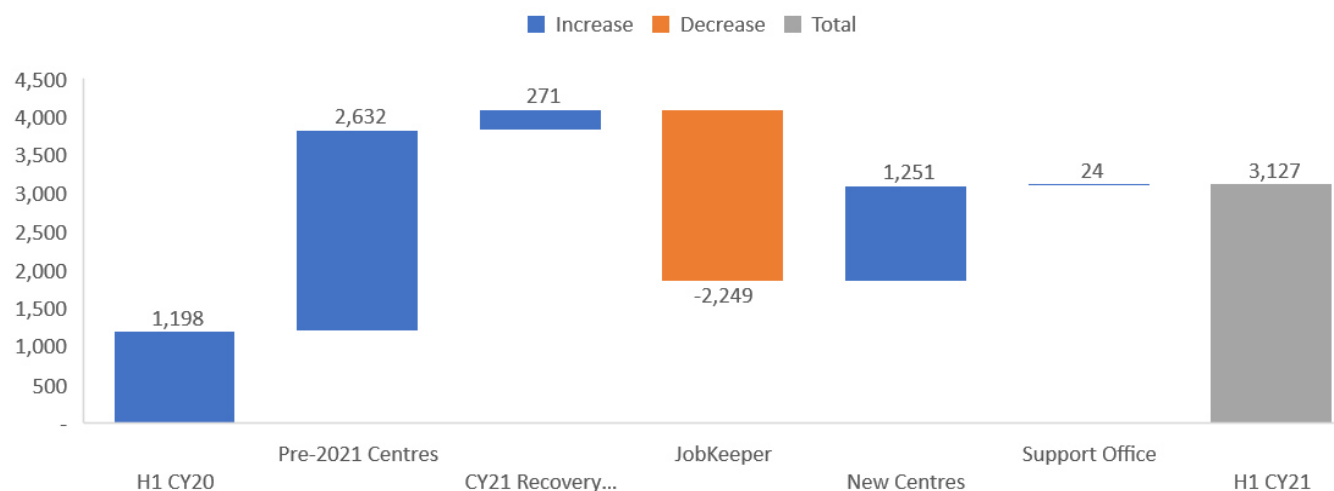
1H CY 2021 Revenue Bridge (A\$000's)

- Revenue was \$14.9m, up 101%
- New centres contributed \$4.2m of total revenue (28%)
- Final government support payments of \$0.3m received in January 2021



1H CY 2021 Underlying EBITDA Bridge (A\$000's)

- Underlying EBITDA for 2021 is \$3.1m, up 161%
- New centres contributed \$1.3m of total Underlying EBITDA (40%), offset by small increase in support office costs of \$24k
- Increases achieved by centres acquired prior to 2021 offset by \$2.2m decrease from JobKeeper payments





STRATEGY AND OUTLOOK

Strategy and Outlook

- Further acquisitions are being contemplated following the capital raise which was completed at the end of March 2021.
- Continued focus on increasing occupancy, centre upgrades, and more prudent use of labour.





APPENDIX

Glossary

| Term | Definition |
|-----------------------------------|---|
| EBITDA | Earnings before interest, taxation, depreciation and amortisation |
| Underlying EBITDA | Earnings before interest, taxation, depreciation and amortisation less the effects of NZ IFRS 16: Leases, gains and losses on the sale or closure of businesses, acquisition and integration costs, impairment losses (or reversals of impairment losses), restructuring costs and non-operational items. |
| Group | Comprises Evolve Education Group Limited and its subsidiaries across New Zealand and Australia |
| Occupancy | Number of children attending per period specified as a percentage of the service's licensed places |
| Wage to Revenue ratio | Employee benefits expense as a percentage of total revenue |
| Total Revenue per FTE per day | Revenue earned per full-time-equivalent child booking per day |
| Total Revenue per Booking per day | Revenue earned per child booking per day |

Disclaimer

The information in this presentation is an overview and does not contain all information necessary to make an investment decision. It is intended to constitute a summary of certain information relating to the performance of Evolve Education Group Limited (“Evolve Education”) for the current period. Please refer to the unaudited financial statements for the period ended 30 June 2021 that have been simultaneously released with this presentation.

The information in this presentation does not purport to be a complete description of Evolve Education. In making an investment decision, investors must rely on their own examination of Evolve Education, including the merits and risks involved. Investors should consult with their own legal, tax, business and/or financial advisors in connection with any acquisition of financial products.

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This presentation includes non-GAAP financial measures in various sections. This information has been included on the basis that management and the Board believe that this information assists readers with key drivers of the performance of Evolve Education which are not otherwise disclosed as part of the financial statements. Past performance information given in this presentation is given for illustrative purposes only and should not be relied upon as it is not an indication of future performance.

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Evolve Education Group Limited
Interim Financial Statements
For the Six Month Period Ended 30 June 2021

The Directors present the Interim Financial Statements of Evolve Education Group Limited for the six month period ended 30 June 2021.

The Interim Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 25 August 2021.



Hamish Stevens
Chair
25 August 2021



Adrian Fonseca
Chair of the Audit and Risk Committee
25 August 2021

Consolidated Statement of Comprehensive Income
For the six month period ended 30 June 2021

| | | UNAUDITED 6 MONTHS 30 JUNE 2021 | UNAUDITED 6 MONTHS 30 SEPTEMBER 2020 |
|---|------|---------------------------------------|--|
| | Note | \$'000 | \$'000 |
| Childcare fees | 3 | 26,450 | 16,175 |
| Government funding | 3 | 48,441 | 49,031 |
| Total revenue | | 74,891 | 65,206 |
| Expenses | | | |
| Employee benefits expenses | 4 | (47,022) | (31,635) |
| Building occupancy expenses | | (1,278) | (1,115) |
| Direct expenses of providing services | | (8,212) | (6,315) |
| Acquisition expenses | | (1,638) | - |
| Depreciation | | (7,142) | (7,289) |
| Amortisation | | (34) | (40) |
| Other expenses | | (739) | (1,553) |
| Total expenses | | (66,065) | (47,947) |
| Profit before net finance expense and income tax | | 8,826 | 17,259 |
| Finance income | | 91 | 99 |
| Finance costs | | (9,820) | (8,533) |
| Net finance expense | | (9,729) | (8,434) |
| (Loss)/Profit before income tax | | (903) | 8,825 |
| Income tax benefit/(expense) | | 387 | (2,595) |
| (Loss)/Profit after income tax attributable to shareholders of the Company | | (516) | 6,230 |
| Other comprehensive income | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| Exchange differences on translation of foreign operations | | (16) | 1,630 |
| Total comprehensive (loss)/income attributable to the shareholders of the Company | | (532) | 7,860 |
| All amounts are from continuing operations | | | |
| Earnings per share | | Cents | Cents |
| Basic and diluted (loss)/earnings per share from continuing operations | | (0.2) | 5.4 |
| Basic and diluted (loss)/earnings per share attributable to the shareholders of the Company | | (0.2) | 5.4 |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the six month period ended 30 June 2021

| | Note | ISSUED SHARE CAPITAL \$'000 | FOREIGN CURRENCY TRANSLATION RESERVE \$'000 | RETAINED (DEFICIT)/ EARNINGS \$'000 | TOTAL \$'000 |
|---|------|--------------------------------------|---|--|-----------------|
| As at 31 March 2020 (audited) | | 237,976 | (1,174) | (136,024) | 100,778 |
| Total comprehensive income | | - | 1,630 | 6,230 | 7,860 |
| As at 30 September 2020 (unaudited) | | 237,976 | 456 | (129,794) | 108,638 |
| As at 31 December 2020 (audited) | | 237,976 | (16) | (128,454) | 109,506 |
| Total comprehensive loss | | - | (16) | (516) | (532) |
| Issue of ordinary shares for cash, net of transaction costs | 11 | 22,038 | - | - | 22,038 |
| As at 30 June 2021 (unaudited) | | 260,014 | (32) | (128,970) | 131,012 |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2021

| | | UNAUDITED AS AT 30 JUNE 2021 | AUDITED AS AT 31 DECEMBER 2020 |
|--------------------------------------|------|------------------------------------|--------------------------------------|
| | Note | \$'000 | \$'000 |
| Current assets | | | |
| Cash and cash equivalents | | 35,987 | 59,139 |
| Funding receivable | 7 | 8,434 | - |
| Other current assets | | 3,244 | 2,507 |
| Total current assets | | 47,665 | 61,646 |
| Non-current assets | | | |
| Property, plant and equipment | | 7,438 | 7,102 |
| Right-of-use assets | 8 | 185,835 | 170,938 |
| Deferred tax assets | | 14,044 | 13,022 |
| Intangible assets | 6 | 153,682 | 117,697 |
| Term deposits | | 4,616 | 4,066 |
| Total non-current assets | | 365,615 | 312,825 |
| Total assets | | 413,280 | 374,471 |
| Current liabilities | | | |
| Trade and other payables | 9 | 11,553 | 7,124 |
| Current income tax liabilities | | 1,207 | 2,014 |
| Funding received in advance | 7 | - | 4,639 |
| Lease liabilities | 8 | 8,381 | 8,028 |
| Employee entitlements | | 9,238 | 6,827 |
| Total current liabilities | | 30,379 | 28,632 |
| Non-current liabilities | | | |
| Borrowings | 10 | 36,515 | 36,137 |
| Lease liabilities | 8 | 215,374 | 200,196 |
| Total non-current liabilities | | 251,889 | 236,333 |
| Total liabilities | | 282,268 | 264,965 |
| Net assets | | 131,012 | 109,506 |
| Equity | | | |
| Issued share capital | | 260,014 | 237,976 |
| Foreign currency translation reserve | | (32) | (16) |
| Retained deficit | | (128,970) | (128,454) |
| Total equity | | 131,012 | 109,506 |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows
For the six month period ended 30 June 2021

| | | UNAUDITED 6 MONTHS 30 JUNE 2021 | UNAUDITED 6 MONTHS 30 SEPTEMBER 2020 |
|--|------|---------------------------------------|--|
| | Note | \$'000 | \$'000 |
| Cash flows from operating activities | | | |
| Receipts from childcare fees | | 26,450 | 16,921 |
| Receipts from government funding | | 35,368 | 39,493 |
| Wage subsidy received | | 11 | 11,810 |
| Payments to suppliers and employees | | (59,497) | (54,669) |
| Income taxes paid | | (1,438) | - |
| Interest received | | 91 | 99 |
| Net cash flows from operating activities | 13 | 985 | 13,654 |
| Cash flows from investing activities | | | |
| Payments for purchase of businesses | | (30,394) | - |
| Proceeds from sale of plant and equipment | | 105 | 67 |
| Payments for software, property, plant and equipment | | (1,769) | (1,860) |
| Transfer to term deposits | | (550) | - |
| Net cash flows from investing activities | | (32,608) | (1,793) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 22,038 | - |
| Interest paid on borrowings | | (1,411) | (317) |
| Payment of lease liabilities | | (12,396) | (11,352) |
| Net cash flows from financing activities | | 8,231 | (11,669) |
| Net (decrease)/ increase in cash and cash equivalents | | (23,392) | 192 |
| Foreign currency translation adjustment | | 240 | 94 |
| Cash and cash equivalents at beginning of period | | 59,139 | 39,048 |
| Cash and cash equivalents at end of period | | 35,987 | 39,334 |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 June 2021

1. Basis of Presentation and Accounting Policies

(a) Reporting Entity

Evolve Education Group Limited (the "Company") is a company incorporated in New Zealand ("NZ"), registered under the Companies Act 1993 and listed on the NZX Main Board ("NZX") and the Australian Stock Exchange ("ASX"). The Company is a FMC Reporting Entity in terms of Part 7 of the Financial Markets Conduct Act 2013 ("the Act"). The registered office is located at Level 15, 16 Kingston Street, Auckland 1010, New Zealand.

The principal activities of the Company and its subsidiaries (the "Group") are to invest in the provision and management of high quality early childhood education centres across New Zealand and Australia (see Note 2, Segment Information).

(b) Basis of Preparation

The consolidated interim financial statements of the Group ("the Group interim financial statements") have been prepared in accordance with the requirements of the NZX and ASX Listing Rules, New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). The interim financial statements are for the Evolve Education Group Limited Group. The Group financial statements comprise the Company and its subsidiaries. The Group is a profit-oriented entity for financial reporting purposes.

These Group interim financial statements are unaudited and have been prepared using the same accounting policies, methods of computation, significant judgements, estimates and assumptions as the financial statements and related notes included in the Group's audited financial statements for the financial year ended 31 December 2020. Accordingly, these Group interim financial statements are to be read in conjunction with those audited financial statements.

Effective from 1 April 2020, the Group's reporting date changed from 31 March to 31 December.

These Group interim financial statements were approved for issue on 25 August 2021.

(c) Going Concern

The financial statements have been prepared on a going concern basis.

The Board has considered the impact of Covid-19 on the financial position of the Group. This is commented on in more detail in Notes 1(g).

The longer-term effects of Covid-19 are not clear at the present point in time. Acknowledging this inherent uncertainty, and the likely adverse impacts on economic conditions in both New Zealand and Australia, these financial statements have been prepared based on currently available information and the Board's best estimates.

Underlying EBITDA and operating cash flow for the Group remained positive for the period. Forecasts indicate that the Group will have sufficient cash to discharge its liabilities as they fall due.

Having regard to the above, the Board has concluded that it is appropriate that these financial statements are prepared on a going concern basis, while acknowledging the uncertainties in the current environment.

(d) New and Amended Standards Adopted by the Group

There are no new standards, amendments or interpretations that have been adopted or are not yet effective that are applicable to the Group.

(e) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in New Zealand Dollars (\$), which is the Company's functional currency and Group's presentation currency. Unless otherwise stated, financial information has been rounded to the nearest thousand dollars (\$'000).

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 June 2021

1. Basis of Presentation and Accounting Policies (continued)

(f) Comparatives

The comparative period is for the six months ended 30 September 2020. Due to the seasonality of the Group's operations, these may not be entirely comparable.

(g) Covid-19

Covid-19 has had a significant impact on global economies and financial markets and asset prices have fluctuated and in some cases materially changed. The pandemic and the response to it by the Governments of both New Zealand and Australia resulted in closure of centres in New Zealand in the previous year when the country was in alert level 4. In the current period, stage 4 lockdowns were implemented across various Australian states due to further Covid-19 outbreaks. All centres remained opened however occupancy has not yet returned to pre-pandemic levels.

As part of the recovery package for child care services in Victoria, Australia, 6 centres received 25% payment of fee revenue between 28 September 2020 and 31 January 2021. No further government support measures were provided beyond 31 January 2021.

While there is uncertainty about the longer term impact of Covid-19 on both economies, the NZ Ministry of Education and Australian Government have been very supportive of the early learning services sectors and the role of early childhood education in the community.

The key components of the financial statements potentially impacted by Covid-19 are intangible assets, right-of-use assets and property, plant and equipment. These areas rely upon forecasts of future profitability as a basis for the carrying value of assets, and therefore potential impairment.

2. Segment Information

The Group reports operating segments by geographical location, namely New Zealand and Australia.

The Group's corporate and management costs include certain financing income and expenditure and taxation that are managed on a Group basis and are not allocated to operating segments.

The Group accounting policies are applied consistently to each reporting segment.

Information regarding the results of each reportable segment is included below. Performance is measured based on NZ GAAP measures of profitability and in relation to the Group's segments, segment profit before income tax. In addition to GAAP measures of profitability, the Group also monitors its profitability using non-GAAP financial measures (that is, operating expenses, earnings before interest, tax, depreciation and amortisation ("EBITDA") and Underlying EBITDA), as described below and as included in the internal management reports that are reviewed by the Group MD and the Board. Operating expenses, EBITDA and Underlying EBITDA are not defined by NZ GAAP, IFRS or any other body of accounting standards and the Group's calculation of this measure may differ from similarly titled measures presented by other companies.

Operating expenses and Underlying EBITDA excludes the effects of NZ IFRS 16: Leases, gains and losses on the sale or closure of businesses, acquisition and integration costs, impairment losses (or reversals of impairment losses), restructuring costs and non-operational items.

The above items can be driven by factors other than those that impact the underlying performance of the business. Operating expenses and Underlying EBITDA excludes the impact of these items to allow the Group MD and the Board to measure the financial performance trends of the underlying businesses from period to period and enable necessary decision-making.

The segment information for the six months ended 30 June 2021 and 30 September 2020 is presented in the following tables.

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 June 2021

2. Segment Information (continued)

| UNAUDITED 30 JUNE 2021 | Note | New Zealand ECE centres \$'000 | Australia ECE centres \$'000 | Support and Corporate functions \$'000 | Consolidated \$'000 |
|---|------|--------------------------------------|------------------------------------|---|------------------------|
| Childcare fees | 3 | 20,386 | 6,064 | - | 26,450 |
| Government funding | 3 | 38,448 | 9,993 | - | 48,441 |
| Total income | | 58,834 | 16,057 | - | 74,891 |
| Operating expenses | | (52,875) | (12,118) | (4,434) | (69,427) |
| Underlying EBITDA | | 5,959 | 3,939 | (4,434) | 5,464 |
| NZ IFRS 16 rental expense adjustment | | 10,470 | 1,834 | 93 | 12,397 |
| NZ IFRS 16 remeasurement gains | | 974 | - | - | 974 |
| <i>Adjusted for:</i> | | | | | |
| Acquisition expenses | | - | (1,638) | - | (1,638) |
| Loss on sale or closure of businesses | | (475) | - | - | (475) |
| Termination benefit | 4 | - | - | (720) | (720) |
| EBITDA | | 16,928 | 4,135 | (5,061) | 16,002 |
| Depreciation | | (5,985) | (1,007) | (150) | (7,142) |
| Amortisation | | - | - | (34) | (34) |
| Earnings before interest and tax | | 10,943 | 3,128 | (5,245) | 8,826 |
| Net finance expense | | (6,337) | (1,919) | (1,473) | (9,729) |
| Profit/(Loss) before income tax from continuing operations | | 4,606 | 1,209 | (6,718) | (903) |
| Total assets | | 233,693 | 119,137 | 60,450 | 413,280 |
| Total liabilities | | (167,588) | (76,057) | (38,623) | (282,268) |

| UNAUDITED 30 SEPTEMBER 2020 | Note | New Zealand ECE centres \$'000 | Australia ECE centres \$'000 | Support and Corporate functions \$'000 | Consolidated \$'000 |
|---|------|--------------------------------------|------------------------------------|---|------------------------|
| Childcare fees | 3 | 14,689 | 1,486 | - | 16,175 |
| Government funding | 3 | 41,365 | 7,666 | - | 49,031 |
| Total income | | 56,054 | 9,152 | - | 65,206 |
| Operating expenses | | (43,058) | (5,179) | (4,552) | (52,789) |
| Underlying EBITDA | | 12,996 | 3,973 | (4,552) | 12,417 |
| NZ IFRS 16 rental expense adjustment | | 10,560 | 1,392 | 136 | 12,088 |
| NZ IFRS 16 remeasurement gains | | 213 | - | - | 213 |
| <i>Adjusted for:</i> | | | | | |
| Acquisition expenses | | - | (33) | - | (33) |
| Loss on sale or closure of businesses | | (97) | - | - | (97) |
| EBITDA | | 23,672 | 5,332 | (4,416) | 24,588 |
| Depreciation | | (6,279) | (825) | (185) | (7,289) |
| Amortisation | | - | - | (40) | (40) |
| Earnings before interest and tax | | 17,393 | 4,507 | (4,641) | 17,259 |
| Net finance expense | | (6,648) | (1,594) | (192) | (8,434) |
| Profit/(Loss) before income tax from continuing operations | | 10,745 | 2,913 | (4,833) | 8,825 |
| Total assets | | 237,024 | 61,639 | 53,756 | 352,419 |
| Total liabilities | | (178,196) | (45,101) | (20,484) | (243,781) |

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 June 2021

2. Segment Information (continued)

Reconciliation of total expenses and operating expenses

| | UNAUDITED 6 MONTHS 30 JUNE 2021 | UNAUDITED 6 MONTHS 30 SEPTEMBER 2020 |
|--|---------------------------------------|--|
| | \$'000 | \$'000 |
| Total expenses per Statement of Comprehensive Income | 66,065 | 47,947 |
| Less: | | |
| Depreciation | (7,142) | (7,289) |
| Amortisation | (34) | (40) |
| NZ IFRS 16 rental expense adjustment | 12,397 | 12,088 |
| NZ IFRS 16 remeasurement gains | 974 | 213 |
| Adjusted for: | | |
| Acquisition expenses | (1,638) | (33) |
| Loss on sale or closure of businesses | (475) | (97) |
| Termination benefit | (720) | - |
| Operating expenses | 69,427 | 52,789 |

3. Revenue

Accounting Policy

Revenues are recognised when the Group satisfies its performance obligations by providing early childhood education services to customers.

Childcare fees

The Group provides early childhood education services for children's various learning and care needs. Revenue from childcare fees are recognised as and when a child attends, or was scheduled to attend, a childcare facility. The performance obligations are satisfied over time as the child simultaneously receives and consumes the benefits.

Ministry of Education New Zealand ("MOE NZ") funding

MOE NZ funding relates to funding provided under the Education Act 1989 to eligible early childhood services subject to certain conditions so that they may provide early childhood education. It is recognised initially as funding received in advance and is then recognised in the Statement of Comprehensive Income over the period childcare services are provided. This funding from the MOE NZ is presented separately from the related costs of providing services in the Statement of Comprehensive Income. Income receivable from the MOE NZ by way of a reconciliation payment is recognised as an asset, and is netted off against the income received in advance. There are no unfulfilled conditions or contingencies attached to the funding.

Australian Government funding

Australian Government funding relates to fees paid under the Child Care Subsidy and are recognised over time when there is reasonable assurance that the funding will be received. Australian Government funding is received in arrears.

| | UNAUDITED 6 MONTHS 30 JUNE 2021 | UNAUDITED 6 MONTHS 30 SEPTEMBER 2020 |
|--|---------------------------------------|--|
| | \$'000 | \$'000 |
| Revenue from continuing operations: | | |
| Childcare fees | 26,450 | 16,175 |
| NZ Ministry of Education funding | 38,448 | 41,365 |
| Australian Government funding | 9,993 | 7,666 |
| Total revenue | 74,891 | 65,206 |

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 June 2021

4. Employee Benefits Expenses

| | UNAUDITED 6 MONTHS 30 JUNE 2021 | UNAUDITED 6 MONTHS 30 SEPTEMBER 2020 |
|---|---------------------------------------|--|
| | \$'000 | \$'000 |
| Employee benefits | 44,668 | 30,234 |
| Employer contribution to Kiwisaver and Superannuation | 1,634 | 1,401 |
| Termination benefit | 720 | - |
| Total employee benefits expenses | 47,022 | 31,635 |

The Group recognised \$11.0 million and \$2.9 million of New Zealand government wage subsidy and Australian JobKeeper payment respectively as a deduction from employee benefits in the six month period to 30 September 2020.

Termination Benefit

Timothy Wong resigned as Chief Executive Officer of the New Zealand operations of the Group on 30 March 2021. As part of his resignation, he received remuneration in the form of share options. The fair value of the share options is included in employee benefits expense and employee entitlements within liabilities. No share options have been exercised as at 30 June 2021.

5. Business Combinations

During the six months ended 30 June 2021, the Group acquired ten centres for a purchase price of \$35.5 million. Total net liabilities acquired were \$0.3 million resulting in goodwill on acquisition of \$35.8 million. No cash was acquired. A summary of the net liabilities acquired is included in the following table.

| | UNAUDITED AS AT 30 JUNE 2021 |
|---|------------------------------------|
| | \$'000 |
| Assets | |
| Property, plant & equipment | 129 |
| | 129 |
| Liabilities | |
| Employee entitlements | (240) |
| Other current liabilities | (162) |
| | (402) |
| Total identifiable net liabilities at fair value | (273) |
| Goodwill arising on acquisition | 35,792 |
| Purchase consideration transferred | 35,519 |
| Purchase consideration | |
| Cash paid | 28,267 |
| Contingent consideration | 7,253 |
| Total consideration | 35,519 |

The total identifiable net liabilities above are provisional and are subject to the completion of purchase price adjustments and an assessment of the acquisition of subsequent Australian centres (refer Note 15). At balance date, the acquisition has contributed revenue of \$4.5 million and a net profit of \$1.3 million to the Group's results before allowing for upfront acquisition expenses and integration costs. A portion of the consideration was determined to be contingent, based on the performance of the acquired businesses. The total potential contingent consideration payable is A\$7.0 million.

There were no business combinations for the nine months ended 31 December 2020.

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 June 2021

6. Intangible Assets

| | UNAUDITED AS AT 30 JUNE 2021 | AUDITED AS AT 31 DECEMBER 2020 |
|---|------------------------------------|--------------------------------------|
| | \$'000 | \$'000 |
| Goodwill | 150,428 | 114,509 |
| Brands | 3,104 | 3,104 |
| Others | 150 | 84 |
| Total Intangible assets (net book value) | 153,682 | 117,697 |
| Movements in goodwill | | |
| Balance at the beginning of the period | 114,509 | 113,865 |
| Acquisition of businesses | 35,792 | - |
| Foreign exchange movements | 127 | 644 |
| Balance at the end of the period | 150,428 | 114,509 |

7. Funding Receivable and Funding Received in Advance

| | UNAUDITED AS AT 30 JUNE 2021 | AUDITED AS AT 31 DECEMBER 2020 |
|---|------------------------------------|--------------------------------------|
| | \$'000 | \$'000 |
| Funding received in advance | (366) | (8,942) |
| Funding receivable | 8,800 | 4,303 |
| Total funding receivable/(received in advance) | 8,434 | (4,639) |

Funding from NZ Ministry of Education

Represents NZ Ministry of Education funding received in advance net of amounts owing but not received. Funding is received three times a year on 1 March, 1 July and 1 November. Each funding round includes 75% of the estimated funding for the four months ahead, as well as payment of the remaining 25% payable for the previous funding period, adjusted for any changes in occupancy and other criteria. At 30 June 2021 funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of March to June 2021.

8. Right-of-use Assets and Lease Liabilities

a) Right-of-use assets

| | Leased properties | Leased motor vehicles | Total |
|---|-------------------|-----------------------|----------------|
| | \$'000 | \$'000 | \$'000 |
| As at 31 December 2020 (audited) | 170,714 | 224 | 170,938 |
| Additions | 22,942 | 241 | 23,183 |
| Disposals | (63) | - | (63) |
| Depreciation | (5,681) | (110) | (5,791) |
| Lease remeasurements | (2,723) | - | (2,723) |
| Foreign exchange movements | 291 | - | 291 |
| Closing net book value | 185,480 | 355 | 185,835 |
| Cost | 217,650 | 628 | 218,278 |
| Accumulated depreciation | (24,137) | (273) | (24,410) |
| Accumulated impairment | (8,033) | - | (8,033) |
| As at 30 June 2021 (unaudited) | 185,480 | 355 | 185,835 |

b) Lease liabilities

| | UNAUDITED AS AT 30 JUNE 2021 | AUDITED AS AT 31 DECEMBER 2020 |
|--------------------------------|------------------------------------|--------------------------------------|
| | \$'000 | \$'000 |
| Current lease liabilities | 8,381 | 8,028 |
| Non-current lease liabilities | 215,374 | 200,196 |
| Total lease liabilities | 223,755 | 208,224 |

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 June 2021

9. Trade And Other Payables

| | UNAUDITED AS AT 30 JUNE 2021 | AUDITED AS AT 31 DECEMBER 2020 |
|---------------------------------------|------------------------------------|--------------------------------------|
| | \$'000 | \$'000 |
| Trade payables | 1,980 | 1,807 |
| Goods and services tax payable | - | 2,850 |
| Other payables | 9,573 | 2,467 |
| Total trade and other payables | 11,553 | 7,124 |

Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amount of trade and other payables are considered to be the same as their fair value, due to their short-term nature.

10. Borrowings

The Group's financing arrangements comprise A\$35 million five year notes issued on 4 December 2020 with a fixed interest rate of 7.50% per annum, payable quarterly in arrears. The notes are secured by way of a first ranking general security agreement over all present and future assets and undertakings of the Group, together with an all obligations cross guarantee and indemnity. The Group was in compliance with all debt covenants throughout the current and previous periods.

11. Capital and Reserves

Issued Share Capital

The Group completed an institutional share placement in April 2021, issuing an additional 19,723,845 shares, with proceeds of \$23.5 million being received. Directly attributable issue costs of \$1.5 million were incurred and have been netted off against the proceeds of the capital raising.

12. Commitments and Contingencies

There has been no material change in commitments and contingencies during the period.

13. Reconciliation of (Loss)/Profit After Tax to Net Operating Cash Flows

| | UNAUDITED 6 MONTHS 30 JUNE 2021 | UNAUDITED 6 MONTHS 30 SEPTEMBER 2020 |
|---|---------------------------------------|--|
| \$'000 | | |
| (Loss)/Profit after income tax | (516) | 6,230 |
| Adjustments for non-cash items: | | |
| Depreciation and amortisation | 7,176 | 7,329 |
| Loss on disposal of property, plant and equipment | (23) | 82 |
| Remeasurement of lease liabilities | (1,050) | (213) |
| Employee share-based payments | 720 | - |
| Deferred tax | (1,022) | (870) |
| Adjustments for items classified as investing or financing activities: | | |
| Finance expense | 9,820 | 8,533 |
| Acquisition expenses | 1,638 | - |
| Working capital movements relating to operating activities: | | |
| Decrease in funding received in advance | (13,073) | (9,538) |
| (Increase)/decrease in other current assets | (737) | 11,592 |
| Increase/(decrease) in trade and other payables | 4,429 | (14,670) |
| Less increase in acquisition earnouts | (7,261) | - |
| (Increase)/decrease in current income tax receivables | (807) | 3,452 |
| Increase in employee entitlements | 1,691 | 1,727 |
| Net cash flows from operating activities | 985 | 13,654 |

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 June 2021

14. Related Parties

Parent entity

Evolve Education Group Limited is the parent entity.

Identity of Related Parties

Related parties of the Group are:

- The Board of Directors comprising Hamish Stevens, Adrian Fonseca, Chris Scott, Chris Sacre, and Kim Campbell.
- J 47 Pty Limited, a company of which Chris Scott is the sole director and shareholder.
- Upton124 Pty Limited, a company of which Chris Sacre is a director.
- Sovana Child Care Pty Limited, a company of which Adrian Fonseca is the sole director and shareholder, and is a trustee of Sovana Child Care Trust.
- Vasona Pty Limited, a company of which Adrian Fonseca is a director and sole shareholder.

Related party relationships that have ceased during the period:

- Timothy Wong resigned as Chief Executive Officer of the New Zealand operations of the Group on 30 March 2021.

Related party transactions arising during the period:

In addition to salaries paid to certain key personnel of the Group the following related party transactions occurred between 1 January 2021 and 30 June 2021:

- Directors' fees paid of \$238,269 (30 September 2020: \$201,023).
- 1.25 million share options were granted to Timothy Wong as part of his resignation (refer to Note 4).

15. Events after the Reporting Period

Australian Centre Acquisitions

The Group acquired two ECE centres in Queensland, Australia on 9 July and 20 August for A\$4.9 million total consideration. At the date of signing these financial statements, the initial accounting is incomplete and subject to final measurement period adjustments. The Group has also entered into conditional agreements to acquire two centres in Victoria, Australia for A\$4.1 million.

Covid-19

Centres in New Zealand have been closed since 18 August 2021 due to the nationwide Covid-19 alert level 4 lockdown. The government announced on 23 August 2021 the extension of alert level 4 until at least 31 August 2021 and 27 August 2021 for the Auckland region and the rest of New Zealand respectively. During lockdown, centres will continue to be funded by the Ministry of Education. The Group does not currently have sufficient certainty of the length, scope, and government support in respect of this lockdown to determine the full impact on the Group.