

30 August 2022

Sale of New Zealand business

*Evolve Education Group Limited (**Evolve**) (NZX: EVO, ASX: EVO) announces a significant strategic realignment of its operations*

Evolve has entered, through its wholly owned subsidiary Lollipops Educare Holdings Limited (the **Vendor**), into a conditional sale agreement relating to Evolve's New Zealand business dated 29 August 2022 with Shine BidCo Limited (**BidCo**), an acquisition vehicle for funds managed by Anchorage Capital Partners (**Anchorage**) (the **SPA**). Under the terms of the SPA, the Vendor will sell 100% of the shares in Lollipops Educare Centres Limited (LECL) to BidCo for an enterprise value of NZ\$46m, less net debt (inclusive of a capex adjustment of NZ\$2.5m) and subject to adjustment post completion to reflect actual levels of completion net working capital against reference working capital (the **Transaction**).

LECL is the operator of Evolve's New Zealand based centres and, at completion of the Transaction, will operate 105 centres.

The enterprise value of \$46m represents a multiple of over 13x FY21 New Zealand underlying EBITDA. This compares with Evolve's current trading multiple of 9x FY21 EBITDA.

Conditions

Completion of the Transaction is currently targeted for the end of September 2022 and is conditional on the following:

- Evolve's shareholders approving the Transaction by way of an ordinary resolution for the purposes of NZX Listing Rule 5.1.1;
- release of security being approved by the security trustee in relation to the notes issued by Evolve under the Information Memorandum dated 2 December 2020 (the **Notes**);
- receipt of necessary change of control consents for specific leases;
- completion of the necessary internal restructure to ensure all centre based assets being acquired by BidCo are held by LECL; and
- the parties not receiving any written communication prior to completion from the Ministry of Education that indicates that the Ministry of Education could reasonably be expected to take any materially adverse action in relation to LECL's Early Childhood Education licences in response to the Transaction.

BidCo may also terminate the SPA if a material adverse event occurs prior to completion that is reasonably likely to have a materially adverse impact on the reputation of LECL or its business as a whole, provided that such impact must be specific to LECL or its business and not a general event or circumstance, and not be a result of the Transaction itself.

In the event that the sale does not proceed, the Board notes:

- Evolve will not incur financial penalties under the share sale agreement if the Transaction is not completed, unless a director changes, qualifies or withdraws their recommendation that shareholders approve the transaction, or Evolve enters into discussions with other parties in

relation to a similar transaction, in which case Evolve may be required to pay \$700,000 to BidCo;

- legal and other advisory expenses to-date have amounted to approximately \$300k;
- the centres operated under LECL will require further investment for refurbishment in order to maintain occupancy levels; and
- trading conditions and profitability over the short-to-medium term are unknown as New Zealand continues to respond to the COVID-19 pandemic.

Rationale

The rationale for the Transaction is largely to accelerate the execution of Evolve's Australian growth strategy by redeploying proceeds to acquire assets in Australia.

Over the past two and a half years, New Zealand performance has been directly impacted by Government-mandated closures in response to the COVID-19 pandemic and closed borders have led to teacher shortages, lower immigration levels and a detrimental impact on overall centre occupancy.

While the board believes occupancy will recover in New Zealand once COVID-19 impacts are reduced, the timing and extent of this is inherently uncertain and largely conditional on factors outside the control of the company.

The board sees substantial opportunity in the Australian market where Evolve's Australian growth strategy has continued to be successfully executed, including:

- the acquisition of 13 new centres in 2021 (with total Australian centres now numbering 24);
- Australian centres having seen strong occupancy of approximately 80% (FY21); and
- Underlying EBITDA having doubled from 2020 to 2021. Evolve's Australian operations contributed over 80% of the Group's Underlying EBITDA in FY21.

The board believes that the sale funds from the Transaction can be best allocated in the Australian market for a targeted acceleration of the Australian growth strategy. This strategy will include:

- a focus on prices which are sensible and sustainable; and
- utilising current market conditions which Evolve sees as highly favourable for centre acquisitions and market consolidation.

The board believes Anchorage will be a valuable operator of the New Zealand business and will provide the support and resources necessary to ensure our centres continue to provide a safe, secure, and stimulating environment for our children, their families, and our team of dedicated teachers.

About Anchorage

Anchorage is a leading Australasian private equity firm established in 2007. Anchorage has a strong track record of investing across a wide range of sectors, and has significant experience in the childcare sector. Anchorage previously owned Affinity Education Group Limited (**Affinity**), one of Australia's largest providers of early education and childcare with a portfolio of over 150 centres. As part of Anchorage's acquisition of Affinity, a comprehensive performance improvement program was developed to leverage the full potential of Affinity's portfolio of centres. There was significant investment in centre quality, curriculum, and systems and processes which drove above market occupancy growth. A strong focus on employee development and career progression led to a refreshed culture and material improvement in staff retention.

Simon Woodhouse and Callen O'Brien, Anchorage principals who were on the board of Affinity, will join the board of the purchaser. Anchorage has a deep understanding of the New Zealand market through a number of prior investments in the region.

Board recommendation

It is the Board's unanimous recommendation that shareholders vote in favour of the Transaction at the special shareholders' meeting expected to be held on 15 September 2022. Further details will be provided in the notice of meeting, which is expected to be made available to shareholders on or before 31 August 2022.

This announcement has been authorised for release by the Evolve Board of Directors.

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