NZX
NEW ZEALAND'S EXCHANGE

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 September 2019	
Previous Reporting Period	6 months to 30 September 2018	
Currency	NZD	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$69,187	(2.6%)
Total Revenue	$69,187	(14.0%)
Net profit/(loss) from continuing operations	($1,438)	94.8%
Total net profit/(loss)	($1,438)	94.8%
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**
Net tangible assets per Quoted Equity Security	($0.02)	($0.27)
A brief explanation of any of the figures above necessary to enable the figures to be understood	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 September 2019 this was NZ$0.10 (2018: NZ$0.70). 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.	
Authority for this announcement		
Name of person authorised to make this announcement	Chris Sacre, Chief Financial Officer	
Contact person for this announcement	Chris Sacre	
Contact phone number	+61 7 5322 5245	
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Date of release through MAP	28 November 2019	

Unaudited financial statements accompany this announcement.

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Dual listed childcare operator Evolve Education Group Limited (NZX:ASX:EVO) releases its interim financial statements for the six month period ended 30 September 2019.

Key Financial Metrics for the half year are as follows:

	HY20	HY19
Revenue	$69.2m	$71.0m
Wages	$44.9m	$42.1m
Rent	$11.9m	$11.5m
Other	$9.3m	$40.4m
EBITDA	$3.1m	($23.0m)
Transactions considered non-recurring or abnormal:		
Impairment expense	-	$32.1m
(Gain)/loss on sale or closure of centres	$0.3m	($0.3m)
Development centre operating losses	$0.1m	$0.1m
Restructuring costs	$0.4m	$0.3m
Underlying EBITDA	$3.9m	$9.2m

The above figures exclude any treatment for IFRS 16. Revenue and expenses for the previous period exclude discontinued operations. The reconciliation to reported result can be found in note 2 of the interim financial statements.

The half year has been a challenging period for the company from an operational perspective. Portfolio occupancy held flat until mid-June when it started to decline from 76.2% to 72.3% in early October 2019. This decline in performance led to structural change at executive and board level.

Unfortunately this decline in performance during the half year implies the starting base for the Group in the 2H20 is lower than 1 April 2019. As a result, full year EBITDA guidance is revised to the range of $6m to $6.5m.

On 19 September 2019, a new board took charge of EVO with operational control passing to Chris Scott as Managing Director. Since then, the Group has successfully implemented aggressive, positive change which will have a meaningful impact on Group financial performance moving forward. The key components of these changes are as follows:

1. Centre based daily fees were assessed against local markets. A price increase was implemented to ensure centres were price competitive in their local communities;

2. Implementation of strict controls on price discounting were introduced. Consequently, the average daily fee paid by the parents across the group increased from $25.30 at the start of April 2019 to $28.00 as at mid November 2019;
3. Board fees were reduced by 16.7% as a commitment to the financial performance turnaround strategy;
4. Support office was streamlined delivering annualised savings of approximately $3.4m per annum with effect from 1 December 2019; and
5. Occupancy was stabilised at 72% as at mid November 2019.

The effect of these 5 strategies puts the New Zealand operations on an annual run rate of $10m EBITDA from 1 January 2020. This is before the financial impact on EBITDA of improvements in occupancy and centre based wage savings which will occur during CY2020.

It is also expected that EBITDA from the EVO Australian operations will be approximately AUD5m in CY2020 implying that total EVO EBITDA in CY2020 will be no less than $15m based on current operations.

The focus for the executive management team is now on reviewing centre based wages and rostering to ensure the centres are as efficient as possible whilst maintaining a high level of compliance, education and care solutions.

The strategy for FY20/FY21/FY22 remains two fold:

1) Driving centre based occupancy improvements in NZ through focused digital marketing initiatives; driving casual days through technology enhancements; a centre based people investment strategy on training/resources; and ensuring our properties remain market leading in the communities where they operate.
2) Pursuing further acquisitions in Australia.

ENDS

For any further inquiries please contact:

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Evolve Education Group Limited

Interim Financial Statements

For the Six Month Period Ended 30 September 2019

The Directors present the Interim Financial Statements of Evolve Education Group Limited for the six month period ended 30 September 2019.

The Interim Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 28 November 2019.

Hamish Stevens	**Adrian Fonseca**
Chair	Chair of the Audit and Risk Committee
28 November 2019	28 November 2019

Consolidated Statement of Comprehensive Income

For the six month period ended 30 September 2019

$'000	Note	UNAUDITED 6 MONTHS 30 SEPTEMBER 2019	UNAUDITED 6 MONTHS 30 SEPTEMBER 2018
Revenue	4	69,187	70,670
Other income	7	-	367
Total income		**69,187**	**71,037**
Expenses			
Employee benefits expenses		(44,926)	(42,112)
Building occupancy expenses		(976)	(11,477)
Direct expenses of providing services		(7,024)	(6,809)
Depreciation		(6,865)	(1,379)
Amortisation		(90)	(217)
Impairment expense	6	-	(32,069)
Other expenses		(2,306)	(2,033)
Total expenses		**(62,187)**	**(96,096)**
Profit/(Loss) before net finance expense and income tax		**7,000**	**(25,059)**
Finance income		296	31
Finance costs		(9,368)	(1,087)
Net finance expense		(9,072)	(1,056)
(Loss) before income tax		**(2,072)**	**(26,115)**
Income tax benefit/(expense)		634	(1,675)
(Loss) after income tax from continuing operations		**(1,438)**	**(27,790)**
Profit after income tax from discontinued operations	3(a)	-	302
(Loss) after income tax attributable to shareholders of the Company		**(1,438)**	**(27,488)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(2)	-
Total comprehensive (loss) attributable to the shareholders of the Company		**(1,440)**	**(27,488)**
Earnings per share		**Cents**	**Cents**
Basic (and diluted) (loss) per share from continuing operations		(0.2)	(10.5)
Basic (and diluted) (loss) per share attributable to the shareholders of the Company		(0.2)	(10.4)

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

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Consolidated Statement of Movements in Equity

For the six month period ended 30 September 2019

$'000	Note	ISSUED SHARE CAPITAL	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED (DEFICIT)/ EARNINGS	TOTAL
As at 31 March 2018 (audited)		**159,149**	**-**	**(2,574)**	**156,575**
Change in accounting policy		-	-	(203)	**(203)**
As at 1 April 2018 (restated) (audited)		**159,149**	**-**	**(2,777)**	**156,372**
Total comprehensive loss		-	-	(27,488)	(27,488)
Shares issued under Dividend Re-investment Plan		457	-	-	**457**
Share issue costs relating to shares issued		(8)	-	-	**(8)**
Dividends paid		-	-	(3,589)	**(3,589)**
As at 30 September 2018 (unaudited)		**159,598**	**-**	**(33,854)**	**125,744**
As at 31 March 2019 (audited)		**159,598**	**-**	**(107,921)**	**51,677**
Change in accounting policy	1(d)	-	-	(14,906)	**(14,906)**
As at 1 April 2019 (restated) (unaudited)		**159,598**	**-**	**(122,827)**	**36,771**
Total comprehensive loss		-	(2)	(1,438)	(1,440)
Issue of share capital (net of costs) for cash	12	59,583	-	-	**59,583**
As at 30 September 2019 (unaudited)		**219,181**	**(2)**	**(124,265)**	**94,914**

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

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Consolidated Statement of Financial Position

As at 30 September 2019

$'000	Note	UNAUDITED AS AT 30 SEPTEMBER 2019	AUDITED AS AT 31 MARCH 2019	UNAUDITED AS AT 30 SEPTEMBER 2018
Current assets				
Cash and cash equivalents		34,033	25,274	1,803
Funding receivable	8	1,305	-	1,233
Current income tax receivable		1,204	1,229	566
Other current assets		1,749	2,387	1,116
Total current assets		**38,291**	**28,890**	**4,718**
Non-current assets				
Property, plant and equipment	7	6,369	5,824	5,690
Right-of-use assets	9	169,598	-	-
Deferred tax assets		8,660	2,145	1,544
Intangible assets	6	101,521	98,610	173,769
Total non-current assets		**286,148**	**106,579**	**181,003**
Assets classified as held for sale	3(b)	-	672	6,727
Total assets		**324,439**	**136,141**	**192,448**
Current liabilities				
Trade and other payables	10	3,899	10,294	5,541
Funding received in advance	8	-	12,625	-
Borrowings	11	-	30,000	-
Lease liabilities	9	20,687	-	-
Employee entitlements		6,359	5,952	6,196
Total current liabilities		**30,945**	**58,871**	**11,737**
Non-current liabilities				
Borrowings	11	25,359	25,359	51,200
Lease liabilities	9	173,221	-	-
Total non-current liabilities		**198,580**	**25,359**	**51,200**
Liabilities classified as held for sale	3(b)	-	234	3,767
Total liabilities		**229,525**	**84,464**	**66,704**
Net assets		**94,914**	**51,677**	**125,744**
Equity				
Issued share capital	12	219,181	159,598	159,598
Foreign currency translation reserve	12	(2)	-	-
Retained (deficit)/earnings		(124,265)	(107,921)	(33,854)
Total equity		**94,914**	**51,677**	**125,744**

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

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Consolidated Statement of Cash Flows

For the six month period ended 30 September 2019

$'000	Note	UNAUDITED 6 MONTHS 30 SEPTEMBER 2019	UNAUDITED 6 MONTHS 30 SEPTEMBER 2018
Cash flows from operating activities			
Receipts from customers (including Ministry of Education funding)		55,257	61,274
Payments to suppliers and employees		(59,032)	(76,324)
Income tax paid		(22)	(2,259)
Interest received		296	31
Net cash flows from operating activities	14	**(3,501)**	**(17,278)**
Cash flows from investing activities			
Payments for purchase of businesses	5	(3,111)	-
Receipts from sale of land and buildings	7	-	3,267
Receipts from sale of plant and equipment		4	-
Receipts from sale of businesses		319	-
Payments for software, property, plant and equipment		(1,997)	(1,933)
Net cash flows from investing activities		**(4,785)**	**1,334**
Cash flows from financing activities			
Net proceeds from issue of shares	12	59,583	-
Share issue costs		-	(8)
Interest paid on borrowings		(1,646)	(1,087)
Bank borrowings drawn		-	52,900
Bank borrowings repaid	11	(30,000)	(34,000)
Principal portion of lease payments		(10,892)	-
Dividends paid		-	(3,132)
Net cash flows from financing activities		**17,045**	**14,673**
Net increase/(decrease) in cash and cash equivalents		**8,759**	**(1,271)**
Cash and cash equivalents at beginning of period		25,274	5,362
Cash and cash equivalents at end of period are represented as follows:			
Cash and cash equivalents		34,033	1,803
Cash and cash equivalents classified as held for sale	3(b)	-	2,288
Cash and cash equivalents at end of period		**34,033**	**4,091**

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 September 2019

1. Basis of Presentation and Accounting Policies

(a) Reporting Entity

Evolve Education Group Limited (the “Company”) is a company incorporated in New Zealand, 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 2, 54 Fort Street, Auckland, 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 (refer Note 2).

(b) Basis of Preparation

The consolidated interim financial statements of the Group have been prepared in accordance with the requirements of the NZX 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. The Group financial statements comprise the Company and its subsidiaries. The Group is a profit-oriented entity for financial reporting purposes.

These consolidated interim financial statements of the Group 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 March 2019, except for the adoption of new and amended standards set out in Note 1(d). Accordingly, these interim financial statements are to be read in conjunction with those audited financial statements.

These consolidated interim financial statements were approved for issue on 28 November 2019.

(c) Going Concern

The considered view of the Board is that it has a reasonable expectation that the Group has access to adequate resources to continue operations for the foreseeable future.

The Board has reached this conclusion having regard to circumstances which it considers likely to affect the Group during the period to at least 28 November 2020, being 12 months from the date of this report.

The Board has reviewed the operating and cash flow forecasts that cover the three year period to 31 March 2022. The Board has obtained sufficient satisfaction based on their review of these financial forecasts that during the period to at least 28 November 2020 there will be:

(a) adequate cash flows generated from operating activities; and

(b) continued access to the Group's debt funding facilities, available to meet any obligations of the Group arising in the ordinary course of business.

The key assumptions on which the cash flow forecasts are based include:

- stable occupancy levels over the next 6 to 12 months;
- a reduction in operating costs in centres with significant surplus capacity over the next six months;
- price increases for parental fees to cover inflation; and
- government funding rates increase with inflation annually.

While material uncertainties exist, in the context of declining average occupancy levels in the Group's centres over the last three years, the Board considers that there is a reasonable expectation that the key assumptions above will be met, that bank covenants will be met for the period to at least 28 November 2020, and that funding will be available to the Group to enable it to continue to meet its liabilities as they fall due. Taking this into account, together with the expected financial performance and positive operating cash flows of the Group, it is the considered view of the Board that the Group is a going concern.

The Board does, however, acknowledge that if the Group’s financial forecasts and cash flows are not realised and bank covenants are not met, and it is unable to secure alternative sources of funding, then the going concern assumption may not be valid, the consequence being that the Group may be unable to realise the value of its assets and discharge its liabilities in the ordinary course of business.

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2019

1. Basis of Presentation and Accounting Policies (continued)

(d) New and Amended Standards Adopted by the Group

NZ IFRS 16: Leases

The Group has adopted NZ IFRS 16 using the modified retrospective method from 1 April 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing standard are therefore recognised in the opening balance sheet on 1 April 2019.

Adjustments recognised on adoption of NZ IFRS 16

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 April 2019. The lessee's weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 8.5%.

$'000	
Operating lease commitments as at 31 March 2019	131,644
Discounted using incremental borrowing rate	90,835
Add: Payments in optional extension periods not recognised as at 31 March 2019	101,893
Less: Low-value and short-term leases recognised on a straight-line basis as expenses	(2,875)
Lease liabilities recognised as at 1 April 2019	189,853
Of which are:	
Current lease liabilities	21,005
Non-current lease liabilities	168,848
	189,853

The associated right-of-use assets for leases were measured on a retrospective basis as if the NZ IFRS 16 standard had always been applied.

The recognised right-of-use assets relate to the following types of assets:

$'000	UNAUDITED AS AT 30 SEPTEMBER 2019	UNAUDITED AS AT 1 APRIL 2019
Properties	169,244	167,705
Motor vehicles	354	361
Total right-of-use assets	**169,598**	**168,066**

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Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2019

1. Basis of Presentation and Accounting Policies (continued)

(d) New and Amended Standards Adopted by the Group (continued)

Adjustments recognised on adoption of NZ IFRS 16 (continued)

The effect of adopting NZ IFRS 16 on 1 April 2019 is as follows:

Increase/(decrease)	UNAUDITED AS AT 1 APRIL 2019
$'000	
Assets	
Right-of-use assets	168,066
Deferred tax assets	5,797
Total assets	173,863
Liabilities	
Lease liabilities	189,853
Other payables	(1,084)
Total liabilities	188,769
Equity	
Retained earnings	(14,906)
Total adjustment on equity	(14,906)

(i) Impact on earnings per share

Earnings per share decreased by 0.2 cents per share for the six months to 30 September 2019 as a result of the adoption of NZ IFRS 16.

(ii) Practical expedients applied

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments of whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group's leasing activities and how these are accounted for

The Group leases childcare centres, motor vehicles and office equipments. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Prior to 1 April 2019, leases of property and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between repayment of the liability and finance expense. The finance expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2019

1. Basis of Presentation and Accounting Policies (continued)

(d) New and Amended Standards Adopted by the Group (continued)

The Group's leasing activities and how these are accounted for (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the lessee's incremental borrowing, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- any restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets consist of office equipments.

(e) Functional and Presentation Currency

These 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).

(f) Comparatives

The comparative period is for the six months ended 30 September 2018.

2. Segment Information

In the previous six months ended 30 September 2018, the Group had two reportable operating segments as described below. The Group operated entirely within New Zealand. Each segment was managed separately. For each of the segments, the Group's Chief Executive Officer ("CEO" and the "Chief Operating Decision Maker") reviewed internal management reports at least on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

ECE Centres – generally purpose built facilities that offer all day or part-day early childhood services; and

Home-based ECE – involves an independent educator delivering services to a small group of children in a home setting and is supported by a registered teacher coordinator who oversees the children's learning progress.

The Home-based ECE businesses was sold during the previous financial year ended 31 March 2019. This segment meets the definition of a discontinued operation for the previous six months ended 30 September 2018 (refer Note 3).

No operating segments have been aggregated to form the above reportable operating segments. The Group accounting policies are applied consistently to each reporting segment.

On 13 September 2019, The Group acquired a childcare centre in Melbourne, Australia (refer Note 5). For the six months ended 30 September 2019, the Group does not report the results from the centre as a separate operating segment as the contribution is not material, but will do so for the financial year ending 31 March 2020.

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Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2019

2. Segment Information (continued)

Other operations included ECE Management, a non-reportable segment, whereby the Group provides management and back-office expertise to ECE centres but it does not own the centre. This operation was sold during the previous financial year ended 31 March 2019. This operation did not meet any of the quantitative thresholds for determining reportable segments and as such it has been included as an unallocated amount. Unallocated amounts also represent other corporate support services, acquisition and integration costs.

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.

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, 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's CEO. EBITDA is 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. This measure is intended to supplement the NZ GAAP measures presented in the Group's financial information.

Underlying EBITDA reflects a number of adjustments that are defined as:

- **Material non-recurring items** – one off or non-recurring in nature. These are items that have not occurred in the recent years and are not forecast to occur in the future, such as impairment expense and gains or losses on the sale of businesses.

As detailed in Notes 1(d) and 9, the Group has applied NZ IFRS 16 Leases from 1 April 2019. The following table compares the Group's income statement for the six months ended 30 September 2019 (in the format adopted for segmental reporting) under the new standard to that which would have been presented had the previous standard still been in force.

		As reported under current standard	Adjustments arising from NZ IFRS 16	As would have been reported under previous standard	Previous six months 30 September 2018
UNAUDITED 30 SEPTEMBER 2019	Note	Consolidated $'000	Consolidated $'000	Consolidated $'000	Consolidated $'000
Revenue		69,187	-	69,187	80,041
Other income		-	-	-	367
Total income		**69,187**	**-**	**69,187**	**80,408**
Operating expenses		(54,440)	(10,892)	(65,332)	(71,224)
Underlying EBITDA		**14,747**	**(10,892)**	**3,855**	**9,184**
Material non-recurring items:					
Development centre operating losses		(60)	-	(60)	(136)
(Loss)/Gain on sale of businesses and assets		(306)	-	(306)	314
Restructuring costs		(426)	-	(426)	(265)
Impairment expense	6	-	-	-	(32,069)
EBITDA		**13,955**	**(10,892)**	**3,063**	**(22,972)**
Depreciation		(6,865)	5,692	(1,173)	(1,394)
Amortisation		(90)	-	(90)	(242)
Earnings before interest and tax		**7,000**	**(5,200)**	**1,800**	**(24,608)**
Net finance expense		(9,072)	7,722	(1,350)	(1,056)
Reportable segment (loss)/profit before tax		**(2,072)**	**2,522**	**450**	**(25,664)**
Less: Profit before tax from discontinued operations		-	-	-	451
(Loss)/Profit before income tax from continuing operations		**(2,072)**	2,522	**450**	(26,115)

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2019

2. Segment Information (continued)

The following tables show the segment information provided to the Group's CEO for the reportable segments for the six months ended 30 September 2019.

UNAUDITED 30 SEPTEMBER 2019	Note	ECE Centres $'000	Home-based ECE (Discontinued) $'000	Unallocated $'000	Consolidated $'000
Revenue		69,173	-	14	69,187
Other income		-	-	-	-
Total income		**69,173**	**-**	**14**	**69,187**
Operating expenses		(48,902)	-	(5,538)	(54,440)
Underlying EBITDA		**20,271**	**-**	**(5,524)**	**14,747**
Material non-recurring items:					
Development centre operating losses		(60)	-	-	(60)
Loss on sale and closure of businesses		(306)	-	-	(306)
Restructuring costs		(426)	-	-	(426)
EBITDA		**19,479**	**-**	**(5,524)**	**13,955**
Depreciation		(6,774)	-	(91)	(6,865)
Amortisation		(90)	-	-	(90)
Earnings before interest and tax		**12,615**	**-**	**(5,615)**	**7,000**
Net finance expense		(7,708)	-	(1,364)	(9,072)
Reportable segment profit/(loss) before tax		**4,907**	**-**	**(6,979)**	**(2,072)**
Less: Profit before tax from discontinued operations					-
(Loss) before income tax from continuing operations					(2,072)

UNAUDITED 30 SEPTEMBER 2018	Note	ECE Centres $'000	Home-based ECE (Discontinued) $'000	Unallocated $'000	Consolidated $'000
Revenue		70,458	9,371	212	80,041
Other income		367	-	-	367
Total income		**70,825**	**9,371**	**212**	**80,408**
Operating expenses		(57,618)	(8,880)	(4,726)	(71,224)
Underlying EBITDA		**13,207**	**491**	**(4,514)**	**9,184**
Material non-recurring items:					
Development centre operating losses		(136)	-	-	(136)
Gain on sale and closure of businesses		314	-	-	314
Restructuring costs		(265)	-	-	(265)
Impairment expense	6	(31,403)	-	(666)	(32,069)
EBITDA		**(18,283)**	**491**	**(5,180)**	**(22,972)**
Depreciation		(1,334)	(15)	(45)	(1,394)
Amortisation		(30)	(25)	(187)	(242)
Earnings before interest and tax		**(19,647)**	**451**	**(5,412)**	**(24,608)**
Net finance expense		-	-	(1,056)	(1,056)
Reportable segment (loss)/profit before tax		**(19,647)**	**451**	**(6,468)**	**(25,664)**
Less: Profit before tax from discontinued operations					451
(Loss) before income tax from continuing operations					(26,115)

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2019

3. Discontinued Operations and Non-current Assets Held for Sale

a) Discontinued operations

During the previous six months ended 30 September 2018, the Group announced its intention to commence a sale process for the businesses within the home-based ECE operating segment. The Home-based ECE operating segment met the definition of a discontinued operation under NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

On 14 November 2018, an unconditional sale agreement was entered into for 100% of the shares in the four PORSE in-home childcare and training companies, with consideration received on 3 December 2018. On 31 October 2018, a sale agreement for the business and assets of Au Pair Link Limited (APL) went unconditional, with settlement occuring on 31 January 2019.

The profit for the previous six months ended 30 September 2018 from the discontinued operation is analysed as follows:

$'000	UNAUDITED 6 MONTHS 30 SEPTEMBER 2018
Revenue	9,371
Depreciation	(15)
Amortisation	(25)
Operating expenses	(8,880)
Profit before income tax	**451**
Income tax expense	(149)
Profit after income tax	**302**

The cash flow for the previous six months ended 30 September 2018 from the discontinued operation is analysed as follows:

$'000	
Net cash from operating activities	722
Net cash flows for the period	**722**

b) Assets and liabilities held for sale

There are no assets held for sale at 30 September 2019.

The assets and liabilities held for sale as at 30 September 2018 includes those in relation to the discontinued home-based operations described in Note 3(a). In addition to the net assets of the home-based ECE subsidiaries, the Group classified six ECE centres and another ancillary business as held for sale as at 30 September 2018. They did not meet the definition of a discontinued operation.

A goodwill impairment expense of $3.8 million, being the difference between the carrying value and fair value less cost to sell of the six ECE centres and ancillary business was recognised in the previous six month period to 30 September 2018.

The ancillary business and one centre were sold during the second half of the financial year ended 30 March 2019, and another centre closed. During the six months to 30 September 2019, a further three centres were sold. The remaining centre has been withdrawn from sale.

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Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2019

3. Discontinued Operations and Non-current Assets Held for Sale (continued)

b) Assets and liabilities held for sale (continued)

The following assets and liabilities were classified as held for sale as at 30 September 2018:

$'000	Note	Discontinued operations	ECE Centres and other ancillary business	Total
Cash and cash equivalents		2,288	-	**2,288**
Funding receivable		-	95	**95**
Current income tax receivable		163	-	**163**
Intercompany receivable		1,603	-	**1,603**
Other current assets		653	9	**662**
Property, plant and equipment		141	379	**520**
Deferred tax assets		311	33	**344**
Intangible assets		96	956	**1,052**
Assets classified as held for sale		**5,255**	**1,472**	**6,727**
Trade and other payables		2,415	14	**2,429**
Funding received in advance		425	-	**425**
Employee entitlements		913	-	**913**
Liabilities classified as held for sale		**3,753**	**14**	**3,767**

4. Revenue

Accounting Policy

Ministry of Education funding

Ministry of Education 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. Income receivable from the Ministry of Education by way of a wash-up 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.

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 or receives home-based care. The performance obligation is satisfied over time as the child simultaneously receives and consumes the benefit.

$'000	UNAUDITED 6 MONTHS 30 SEPTEMBER 2019	UNAUDITED 6 MONTHS 30 SEPTEMBER 2018
Revenue from continuing operations:		
Ministry of Education Funding	45,501	46,564
Childcare fees	23,576	23,851
Other revenue	110	255
Total revenue from continuing operations	**69,187**	**70,670**

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Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2019

5. Business Combinations

During the six months ended 30 September 2019, the Group acquired one centre for a purchase price of $3.1 million. Total net assets acquired was $0.1 million resulting in goodwill on acquisition of $3.0 million. No cash was acquired. A summary of the net assets acquired is included in the following table.

Assets and liabilities acquired and consideration paid	$'000
Assets	
Other current assets	118
	118
Total identifiable net assets at fair value	118
Goodwill arising on acquisition	2,993
Purchase consideration transferred	**3,111**
Purchase consideration	
Cash paid	3,111
Total consideration	**3,111**

The total identifiable net assets 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 16).

At balance date, the acquisition has contributed revenue of $143,000 and a net profit after tax of $58,000 to the Group's results before allowing for upfront acquisition expenses and integration costs.

6. Intangible Assets

$'000	Note	UNAUDITED AS AT 30 SEPTEMBER 2019	AUDITED AS AT 31 MARCH 2019	UNAUDITED AS AT 30 SEPTEMBER 2018
Goodwill		98,221	95,286	170,228
Brands		3,104	3,104	3,104
Others		196	220	437
Total Intangible assets (net book value)		**101,521**	**98,610**	**173,769**
Movements in goodwill				
Balance at the beginning of the period		95,286	203,312	203,312
Acquisition of businesses		2,993	-	-
Purchase price adjustment of goodwill from acquisition of businesses		-	-	(59)
Disposal of businesses		(58)	(518)	-
Impairment expense - Assets held for sale	3(b)	-	(3,850)	(3,781)
Impairment expense - ECE centres		-	(103,289)	(28,288)
Balance at the end of the period		**98,221**	**95,655**	**171,184**
Goodwill classified as held for sale	3(b)	-	(369)	(956)
Balance at the end of the period (excluding held for sale)		**98,221**	**95,286**	**170,228**

6. Intangible Assets (continued)

Impairment Testing of Goodwill

In the financial year ended 31 March 2019, the Group recognised an impairment expense of $103.3 million in respect of the ECE centres cash generating unit (CGU). A further expense of $3.9 million was recognised in respect of assets held for sale.

The ECE centres CGU goodwill balance of $98.2 million has been tested for impairment as at 30 September 2019.

The recoverable amount of the ECE centres CGU is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets covering a five-year period.

Key assumptions used in value in use calculations

The key "base" assumptions used in the calculation of value in use for ECE centres are:

- Revenue growth through the forecast period
- Expense growth through the forecast period
- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

The table below sets out the key assumptions for ECE centres:

	30 SEPTEMBER 2019 Centres	31 MARCH 2019 Centres
Revenue growth attributable to price (% per annum on average)	3.0%	2.5%
Revenue growth attributable to increase in enrolment (% per annum on average)	1.0%	0.8%
Total revenue growth (% per annum on average)	4.0%	3.3%
Expense growth (% per annum on average)	1.0%	1.8%
Pre-tax discount rates (%)	15.4%	15.4%
Long term growth rate (%)	2.0%	2.0%

Revenue - Revenue is received from the Ministry of Education and parents/caregivers, which in turn is based on occupancy. It is assumed the Ministry of Education continues to support early childhood education to the value of approximately 66% of ECE revenue earned. If the Government reduces its funding it could lead to the increased requirement of parents and caregivers to make up the difference. If Government funding was to decrease, management would need to initiate appropriate responses to maintain profitability. The assumptions reflect the impact of future increases in funding as announced by the Government.

Expenses - The estimate of percentage growth in expenses includes the weighted average of expected increase in wages and other operating expenses such as operating lease costs. Management forecasts other expenses based on the current structure of business, adjusting for inflationary increase and expected increases in occupancy and reflecting anticpated cost savings measures.

Pre-tax discount rates – The discount rates represent the current market assessment of the risks specific to the group of CGUs, taking into account the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the industry segment the Group is engaged in, and is derived from its weighted average cost of capital (WACC). The WACC takes into account both the cost of debt and equity. The cost of equity is derived from the expected return on investment by the Group’s investors using the capital asset pricing model. The cost of debt takes into account borrowing rates for both the Group and the market. The overall discount rate is independent of the Group's capital structure and the way the Group might finance the purchase of a business. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2019

6. Intangible Assets (continued)

Key assumptions used in value in use calculations (continued)

Long term growth rate – This rate is based on current inflation rates in New Zealand and forecast or assumed increase in revenues from parents/caregivers and the Government. The rate used is not inconsistent with the long term growth rate experienced industry-wide.

Sensitivity to changes in key assumptions

The most sensitive assumption in the calculation of value in use for the ECE Centres CGU is revenue growth. The following summarises the impairment expense that would have been required had the noted changes in the "base" assumptions been made, with all other assumptions remaining constant:

	Headroom/ (Impairment)
$'000	
Base assumption	14,111
Enrolment growth +0.5% above base	27,002
Enrolment growth -0.5% under base	1,396
Price growth +0.5% above base	32,244
Price growth -0.5% below base	(3,716)

7. Property, Plant and Equipment

In the previous six months ended 30 September 2018, centre land and buildings with a book value of $2.9 million were sold for $3.3 million, resulting in a gain on sale of $0.4 million. There were no disposal of land and buildings for the six months ended 30 September 2019.

8. Funding Receivable and Funding Received in Advance

	UNAUDITED AS AT 30 SEPTEMBER 2019	AUDITED AS AT 31 MARCH 2019	UNAUDITED AS AT 30 SEPTEMBER 2018
$'000			
Funding received in advance	(5,691)	(15,971)	(5,926)
Funding receivable	6,996	3,346	7,159
Total funding receivable/(received in advance)	**1,305**	**(12,625)**	**1,233**

Ministry of Education funding is received three times per year on 1 March, 1 July and 1 November. Each funding round includes 75% of the estimated funding for the four months ahead. At 30 September 2019 funding received in advance relates to October 2019. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of June to September 2019.

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2019

9. Right-of-use Assets and Lease Liabilities

The right-of-use assets and lease liabilities have arisen upon adoption of NZ IFRS 16 *Leases* from 1 April 2019. Refer Note 1(d) for further information.

a) Right-of-use assets

$'000	Leased properties	Leased motor vehicles	Total
Adjustment on adoption of NZ IFRS 16	167,705	361	**168,066**
Additions	7,142	82	**7,224**
Depreciation	(5,603)	(89)	**(5,692)**
Closing net book value	**169,244**	**354**	**169,598**
Cost	214,548	628	**215,176**
Accumulated depreciation	(45,304)	(274)	**(45,578)**
As at 30 September 2019	**169,244**	**354**	**169,598**

b) Lease liabilities

$'000	UNAUDITED AS AT 30 SEPTEMBER 2019	UNAUDITED AS AT 1 APRIL 2019
Current lease liabilities	20,687	21,005
Non-current lease liabilities	173,221	168,848
Total lease liabilities	**193,908**	**189,853**

Accounting Policy

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of useful life and the lease term.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable and variable lease payments that depend on an index or a rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

9. Right-of-use Assets and Lease Liabilities (continued)

Accounting Policy (continued)

Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term lease and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short term leases of properties (i.e. those leases that have a lease term of 12 months or less from the date of transition).

The Group applies the low-value assets recognition exemption to leases of office equipment that are considered of low value ($10,000 or less). Lease payments on short term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

10. Trade And Other Payables

	UNAUDITED AS AT 30 SEPTEMBER 2019	AUDITED AS AT 31 MARCH 2019	UNAUDITED AS AT 30 SEPTEMBER 2018
$'000			
Trade payables	154	339	1,058
Payable to third party	-	-	1,603
Goods and services tax payable	-	4,243	-
Onerous lease provision	-	1,531	-
Other payables	3,745	4,181	2,880
Total trade and other payables	**3,899**	**10,294**	**5,541**

Payable to third party relates to funds held by Evolve Education Group Limited relating to Porse In Home Childcare Limited which was payable to the purchaser of the business upon settlement. The corresponding intercompany receivable in Porse In Home Childcare Limited is classified as held for sale in Note 3(b).

The timing of Ministry of Education funding, as disclosed at Note 8, affects the timing of goods and services tax (“GST”) payable. GST on funding received in March remains payable at the end of March, whereas no GST on funding is payable at September as the GST relating to July funding is paid in August. As at 30 September 2019, a GST receivable of $56,000 has been included in other current assets in the Consolidated Statement of Financial Position.

11. Borrowings

The Group's financing arrangements comprise the bank facilities summarised below. The facilities 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 bank covenants during the period.

$'000	UNAUDITED AS AT 30 SEPTEMBER 2019	AUDITED AS AT 31 MARCH 2019	UNAUDITED AS AT 30 SEPTEMBER 2018
Facility Limits			
Working capital facility	8,500	8,500	25,000
Acquisition facility	25,359	55,359	70,000
Total lending facilities	33,859	63,859	95,000
Utilisation			
Working capital facility	-	-	-
Acquisition facility	25,359	55,359	51,200
Total borrowings	25,359	55,359	51,200
Total unused facilities	8,500	8,500	43,800

In June 2019, the Group repaid bank borrowings of $30 million and the acquisition facility was subsequently reduced by the repayment amount.

The Group has a lease guarantee facility of $2.5 million, of which $2.3 million is currently utilised (refer Note 13).

12. Capital and Reserves

Issued Share Capital

The Group concluded a pro-rata accelerated rights entitlement offer capital raise in June 2019, issuing an additional 793,225,436 shares, with proceeds of $63.4 million being received. The capital raise comprised a placement of $30.5 million to eligible institutional shareholders and $32.9 million to eligible retail shareholders. Incremental directly attributable issue costs of $3.8 million were incurred and have been netted off against the proceeds of the capital raising.

Foreign Currency Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations and the translation of liabilities that hedge the Group's net investment in a foreign subsidiary.

13. Commitments and Contingencies

Guarantees

In addition to the lending facilities disclosed in Note 11, the Group has a lease guarantee facility of $2.5 million at 30 September 2019 (31 March 2019: $2.5 million; 30 September 2018: $3.0 million). At 30 September 2019, utilisation of the facility was $2.3 million (31 March 2019: $2.3 million; 30 September 2018: $2.3 million).

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2019

14. Reconciliation of (Loss) After Tax to Net Operating Cash Flows

$'000	UNAUDITED 6 MONTHS 30 SEPTEMBER 2019	UNAUDITED 6 MONTHS 30 SEPTEMBER 2018
(Loss) after income tax	(1,438)	(27,488)
Adjustments for non cash items:		
Depreciation and amortisation	6,955	1,636
Impairment expense	-	32,069
Gain on sale of land and buildings	-	(367)
Loss on disposal of property, plant and equipment	17	53
Loss on sale of businesses	289	-
Deferred tax	(681)	(252)
Adjustments for items classified as investing or financing activities:		
Finance expense	9,368	1,087
Working capital movements relating to operating activities:		
Increase/(decrease) in funding received in advance	(13,930)	(18,767)
(Increase)/decrease in other current assets	803	(1,796)
Increase/(decrease) in trade and other payables	(5,316)	(3,549)
(Increase)/decrease in current income tax receivables	25	(177)
Increase/(decrease) in employee entitlements	407	273
Net cash flows from operating activities	**(3,501)**	**(17,278)**

As disclosed in Note 8, Ministry of Education (“MOE”) funding is received by Evolve every four months. In the six months to 30 September 2019, MOE funding was received on 1 July 2019 only.

15. 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 (appointed 29 July 2019), Adrian Fonseca (appointed 19 September 2019), Chris Scott, Chris Sacre, Kim Campbell (appointed 19 September 2019), Alistair Ryan (retired 15 June 2019), Norah Barlow (retired 19 September 2019) and Grainne Troute (retired 6 September 2019).
- On 16 August 2019, Chris Scott was appointed as Managing Director and Chris Sacre was appointed as Australia Country Manager.
- J47 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.

15. Related Parties (continued)

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 April 2019 and 30 September 2019:

- Directors' fees paid of $218,774 (30 September 2018: $237,496).
- During the period, J47 Pty Limited increased its shareholdings from 34,186,061 shares to 184,604,729 shares.
- During the period, Upton 124 Pty Limited acquired 62,180,500 shares in the Company.
- During the period, Sovana Child Care Trust acquired 15,000,000 shares in the Company.
- On 13 September 2019, the Group completed the acqusition of a childcare centre in Melbourne, Australia from Sovana Child Care Pty Limited for a total purchase price of AU$2.9 million. This was prior to Adrian Fonseca becoming a Director and acquiring shares in the Company on 19 September 2019.

16. Events after the Reporting Period

In October 2019, the Group completed the acquisition of four childcare centres in Melbourne, Australia for a total purchase price of AU$11.8 million. One of these centres was acquired from a related party, Sovana Child Care Pty Limited (refer Note 15).

In November 2019, the Group conditionally contracted to acquire five childcare centres across Queensland and Victoria, Australia. The acquisition price is AU$7.65 million, with a further AU$1.5 million payable if earnings for calendar 2020 meet target. The initial consideration is AU$4 million in cash and AU$3.65 million in the Company's shares, though the Group may choose to pay the full amount in cash.