RAPER CAPITAL

Hamish Stevens, Chairman
Evolve Education Group
Level 15, 16 Kingston Street
Auckland CBD 1010
New Zealand

July 4, 2022

Dear Mr Stevens,

Entities I manage are beneficially interested in 0.5% of the outstanding shares of Evolve Education Group (hereafter, 'EVO', or 'the Company'). I am writing today to enjoin the Board to engage advisors and consider all available strategic alternatives, such as a sale of its Australian childcare business; its New Zealand childcare business; or both. Over the past few months, I have discussed the state and trajectory of the Company on multiple occasions with Chris Scott, our Managing Director. At this juncture, after a tumultuous multi-year period with multiple attempted restructurings in New Zealand, I have come to believe that there is no longer any financial or industrial logic in pursuing an independent future as a listed entity. Certainly this is the judgement of the market, as our shares trade near all-time lows, having fallen 91% over the last five years, and far underperforming most all listed comparables.

Our Company now faces a punitive implied cost of equity capital; has demonstrated a chronic inability to execute on the plan in New Zealand; and, more recently, is now wholly excluded from any inorganic growth optionality due to the entrance of new, cashed-up acquirers competing against us. As a result, EVO should simply cede to the inevitable and sell itself to the highest bidder, either in part or in whole. Such a course of action would likely generate ~100% stock price appreciation from current trading levels, allowing both insiders and long-suffering shareholders a satisfactory exit from their holdings.

Our Company has been priced out of the M&A market and thus cannot grow

As I am sure you know, EVO's main growth strategy – ever since its IPO in 2017 – has been to accretively 'roll up' early childcare education (ECE) centres via acquisition. It was for this purpose that NZ$132mm was raised from the market at the IPO[1]; and even after the New Zealand market soured, in March 2019, an initial NZ$25mm was dedicated towards inorganic

[1] See Evolve IPO Prospectus, Section 1.1, p.2.
https://www.evolveeducation.co.nz/media/1126/australian_investment_statement_17nov.pdf

growth in Australia.[2] When the Company raised a further A$22mm in equity capital in March 2021, the stated use of proceeds was the same: 'to further implement our Australian expansion strategy, as we believe the current market conditions are highly favorable for centre acquisitions and market consolidation.'[3]

But these fertile conditions no longer exist. The recent entrance of several large, multi-national operators to the trans-Tasman ECE market has fundamentally changed the financial calculus of M&A for our Company. Busy Bees ('BB'), a UK player backed by the Canada's Ontario Pension Plan and Singapore's Government Investment Corporation; and Bright Horizons ('BFAM'), a US-listed multi-billion operator in both the US and Europe, have both acquired new platforms in Australia and New Zealand within the last twelve months.[4] Both operators paid very high prices to gain entry to the market, and both have since telegraphed their further intentions, articulating a plan to continue their acquisitive spree in order to drive economies of scale.[5]

At the same time, private equity interest in the sector remains fervent, such that overall acquisition multiples across targets large and small have risen dramatically beyond what our Company would historically consider attractive, or even reasonable. Gone are the days when EVO could acquire high-occupancy, mid-twenties percent EBITDA margin Australian centres for ~4x EV/EBITDA or lower – today BB and BFAM are paying 10-15x EV/EBITDA for zero (or minimal) synergy acquisitions!

Both of these groups – the new strategic entrants and the legacy private equity players – have financial resources that dwarf those of a company like ours. Moreover, even if private equity is somewhat rational, the prices being paid by the likes of BB and BFAM demonstrate a willingness to offer uneconomic terms in order to build a certain level of scale. The rationale of individual transactions notwithstanding, it is self-evident that our Company - with barely a $100mm market capitalization, modest cash resources, and an equity price almost half the level at which it last raised capital from the market - is not a credible bidder for any centre that BB or BFAM may wish to buy. Since this new reality affects other similarly-sized players, it may well be that a 'two-tier' market develops, where EVO and other small roll-ups are forced to self-select

[2] See 'Evolve update and rights offer', 8 May 2019, pp. 17.
https://www.asx.com.au/asxpdf/20190508/pdf/444xtz0gj4v3vn.pdf
[3] See 'Successful Completion of Placement,' 1 April 2021.
https://www.asx.com.au/asxpdf/20210401/pdf/44v61r15kd5llv.pdf
[4] Busy Bees acquired Think Childcare in Australia, for ~10x EV/EBITDA, in mid-2021. See Scheme booklet: https://www.asx.com.au/asxpdf/20210819/pdf/44zh99c58r73k9.pdf. Subsequently Busy Bees also acquired Provincial Education in New Zealand in October 2021, paying ~9x EV/EBITDA, per this article: https://www.afr.com/street-talk/busy-bees-buys-new-zealand-s-provincial-for-nz160-million-20211021-p5920w
BFAM announced the acquisition of Only About Children for >$6mm per centre, a level that I believe equates to ~15x EV/EBITDA (Raper Capital estimates). See here: https://investors.brighthorizons.com/news-releases/news-release-details/bright-horizons-acquire-only-about-children-premier-child-care
[5] Busy Bees, in describing both the Think and Provincial acquisitions: 'We have a clear ambition of continued growth underpinned by the financial strength of the Busy Bees Group.'See here: https://thesector.com.au/2021/10/22/busy-bees-announces-acquisition-in-new-zealand-completes-think-childcare-deal/#:~:text=In%20addition%2C%20Busy%20Bees%20also,to%20147%20centres%20across%20Australia.
BFAM used the term 'beachhead position' to describe its OAC acquisition, four separate times on the conference call discussing the acquisition (4 May, 2022). See transcript here:
https://app.tikr.com/stock/transcript?cid=25777&tid=225717951&e=1779913753&ts=2551735&ref=muaxrx

for centres unwanted by the larger entrants – and yet then compete to bid those up anyway. Competing in such a toxic acquisition environment would only compound the issue, and would constitute a horribly destructive use of shareholder capital.

Rather than engage and compete in this ruinous cycle, **EVO should instead turn seller and engage these new entrants, or others, to maximize shareholder value via divestment.**

The New Zealand business needs new stewardship

Moreover, the increasingly punitive cost of inorganic growth is not the only reason to consider a strategic volte-face. Our Company has been promising an operational turnaround in New Zealand since 2019, and yet on the evidence, has demonstrated nothing but a chronic inability to fix itself. The problems start at the top: the New Zealand business has cycled through three different country heads in the last thirty months, and now – exiting the crucial post-COVID rebuilding period – appears to still being run directly by Mr Scott, from Brisbane. Whilst it is true that currently most all our Company's earnings come from the Australian business, New Zealand is still responsible for the bulk (~82%) of total ECE centres and represents the majority of earnings upside for the Company if the operations can be turned. Faced with this reality, the lack of urgency in installing competent and uninterrupted local stewardship – the precursor to extracting any meaningful operational improvements – is concerning. One wonders, then, if our Board really wants to be in the ECE business in New Zealand at all, given the lackadaisical approach to management turnover in recent years.

Whether this is the case or not, recent conditions in the New Zealand business only further underline the strategic need for consolidation. At the recent AGM, Mr Stevens, you mentioned in your remarks that there was a chronic teacher shortage in parts of the market, as well as some local structural issues particular to the Auckland region.[6] Whilst perhaps not a fulsome solution, merging with another large player – perhaps Provincial, the Busy Bees' subsidiary – would create a national leader and allow for the significant rationalization of G&A resources, along with the ability to optimize staffing across nearly double the number of centres whilst amortizing higher labour costs against savings in other parts of the organization. At the same time – given the BB parent's substantial resources – the merged organization would be far better capitalized to meet the ongoing challenges of the post-COVID market.

[6] See Chairman's Address to Shareholders, 27 June 2022, p.4.
https://www.asx.com.au/asxpdf/20220627/pdf/45b81tjjt5mqsg.pdf

A sale of either or both businesses would crystallize deep upside equity value

Beyond the strategic merits, divesting one or both businesses would simply create a huge amount of upside to the equity and allow management's substantial investment in the Company to be recouped. Neither of these outcomes are guaranteed, nor indeed would I classify them as likely, should we stay the course as an independent small-cap operator.

On a 'sum-of-the-parts' basis, **I value EVO at NZ$230mm, or ~$1.31 per share (AUD, converting back at 1.1 FX)**, as detailed below:[7]

	No of centres	EBITDA	Multiple (x)	Total
Australia	24	15	9	135
NZ	106	10	8	80
		Total =		**215**
		Add net cash =		15
		Equity value =		**230**
		Per share =		**$1.31**
		Upside ref current		***99%***

Extracting this theoretical value need not be too difficult, if the Board is so inclined to consider a sale with alacrity. Regarding the Australian business, I am quite confident a multiple of 9x centre EV/EBITDA could be achieved for EVO's portfolio. Our Company's assets demonstrate superior operating and earnings metrics than most all competing businesses that have been sold in the last 12 months in Australia. The two most relevant direct comps – Busy Bees' acquisition of Think Childcare, in March 2021; and BFAM's purchase of Only About Children, just last month – both occurred at valuations north of 10x EV/EBITDA. Clearly, even achieving a slightly lower multiple (whilst receiving no credit for merger synergies) would still more than cover today's enterprise value (~NZ$100mm). The market today is thus extracting a beyond-penal discount on the prosperous Australian business, such is the disbelief that EVO can realize any portion of that value.

As for the New Zealand business, whilst it remains a turnaround story for the moment, it should be noted that in 2021 – a horribly difficult year, no less – it still generated $NZ10mm in segment EBITDA (mostly offset by ~NZ$8mm in corporate overhead).[8] Since the likely acquirer could fold EVO's entire centre footprint into its own (thus removing the majority of this G&A), even a small uptick in subsequent occupancy would generate at least NZ$10mm in acquirer's EBITDA. Capitalizing this at 8x – the low end of the range implied by the Provincial transaction – would still leave substantial multiple and earnings upside for the new operator to earn, over time, and so does not represent an overly-aggressive value estimation to my mind.

[7] Raper Capital estimates based on historical Company filings
[8] See 'Annual Report to Shareholders,' 30 March 2022, p. 35.
https://www.asx.com.au/asxpdf/20220330/pdf/457hk40035r5p5.pdf

Considered together, **EVO shareholders – including management, who collectively owns over 20% of our Company – could feasibly extract ~100% upside against trading prices of the equity today**. But importantly, even undertaking just one of these transactions, and not necessarily both, would in my view be taken very positively by the market and likely lead to a strong rally in the shares. Thus, for example, if management still had an agenda to grow in certain pockets of the Australian market – perhaps less affected by the ravages of recent entrants – then that option may become possible, should our equity recover to levels where it had value as an issuing currency. Today of course this potential strategic course is clearly a non-starter.

In closing, therefore, let me reiterate that lowering our Company's implied cost of equity capital is the Board's first and most urgent task. Selling either the Australian or New Zealand business, or both, is the *sine qua non* of this effort, and should be considered immediately. In a consolidating market, with a number of aggressive, cashed-up suitors, there remains substantial value in our Company – for now. But muddling along at the current *status quo* is simply untenable. Absent a strategic transaction, EVO will be condemned to a purgatorial existence – unable to grow, yet unwilling to sell down – and continuously buffeted by the increasing winds of competition. Such an outcome would serve only to further dissipate the value that remains in the business today, to the detriment of all shareholders (not least the Board).

Importantly, I have discussed this agenda with numerous other shareholders (constituting perhaps a quarter of the register) and received near-universal positive feedback. As a result, I feel a substantial portion of the register would be wholly supportive of such a change in direction. I would hope that management listens to its shareholders and engages advisors to at the very least explore the value-creating possibilities available through such action.

I remain at your disposal to discuss any and all of the enclosed, and can be reached at jeremy@rapercapital.com.

Yours sincerely,

Jeremy Raper