ASX Release

18 July 2018

Navitas to Rationalise Careers and Industry Division

Global education services provider Navitas Limited (ASX: NVT) advises that following a detailed portfolio review of the Careers and Industry Division, the Company will undertake a rationalisation program to address the profitability of parts of its portfolio and create a solid foundation for growth in the Division.

The rationalisation program will include the:
- investigation of a divestment of all SAE US colleges;
- closure of two sub scale SAE US colleges on the west coast;
- closure or divestment of Health Skills Australia;
- closure of SAE Oxford; and
- conversion of SAE Indonesia into a licensed operation.

Students at affected colleges and campuses will be able to complete their programs before closure or will be supported to transfer to a similar provider to complete their program.

As a consequence, a number of one-off charges will be included in the Company's 2018 financial year result. Subject to final audit review, these charges will total approximately $130m post tax. Navitas' unaudited FY18 EBITDA result prior to these one-off charges are in line with market expectations.

Navitas Group CEO David Buckingham said "Navitas remains committed to delivering quality student outcomes and strong shareholder returns, which necessitates taking a disciplined approach to capital allocation across the Company."

"A review of our Careers and Industry Division has been undertaken which determined that certain businesses within the division were likely to remain as either subscale or with limited opportunities for profitable returns. While the Company has been working closely with the relevant US regulators since entering the US, and has gained accreditation for some courses, a range of recent regulatory constraints on 'for profit' providers in the US have prevented the ability to operate profitably and expand accredited programs in our SAE US businesses for the last two years. These constraints are expected to continue over the foreseeable future."

"We exhausted all possible options to address these constraints to improve the performance of these operations and have now concluded that they are unlikely to deliver a satisfactory return on capital in an acceptable timeframe."

"Although difficult, this is a decision we needed to make to put the Careers and Industry division on a solid foundation to pursue future growth opportunities. Demand for quality education remains high globally, and following this rationalisation, Navitas will be better positioned to succeed in an evolving sector and deliver on the 2020 targets we outlined in April 2017."

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Careers and Industry Division

Navitas' Careers and Industry Division provides industry focussed tertiary education in Creative and Media, Government Programs, Human Services and Health Services. It encompasses SAE (formerly School of Audio Engineering, acquired in 2011) and has operations in Australasia, Europe and the US. The Division accounted for 39% of Group revenue and 39% of Group EBITDA in the Company's 2017 financial year.

The portfolio review has confirmed the Division is well placed to keep offering students high quality programs in areas of employment growth through its colleges located in high demand sectors and regions. However, some rationalisation of the portfolio is required to improve efficiency, return on capital and create a solid foundation for future growth for the Division.

The majority of this restructure will be in the US which accounts for around 17% of the Careers and Industry Division revenue and comprises eight SAE colleges. The SAE US businesses are expected to generate $60m of revenue and a $3m EBITDA loss in the 2018 financial year. Excluding SAE US, the remaining SAE business EBITDA margin is expected to be approximately 20% for the 2018 financial year.

As mentioned above the SAE's US operations have experienced challenging operating conditions. Accreditation needs to be awarded at a state level as well as with national accrediting agencies, leading to long lead times and high compliance costs. Coupled with added administrative costs for student financial aid and graduate employment programs, the SAE US business has incurred significantly higher costs relative to the remainder of the Careers and Industry portfolio. This has resulted in lower profit contributions from underutilised facilities.

SAE colleges at Los Angeles and San Jose will be closed or divested, and operations consolidated to the Emeryville campus in San Francisco. These measures are expected to have a modest impact on revenue but importantly will have a positive impact on operating EBITDA, margins and ongoing working capital requirements. A potential divestment of the rationalised SAE US business will also be explored.

SAE's operations in Canada will be unaffected by the US restructure. Canada remains an attractive market opportunity with less restrictions and faster accreditation for new course products.

In addition, the SAE Oxford college will be closed and SAE Indonesia converted to a licensed operation.

Health Skills Australia will also be closed or divested as changes to the Vocational education funding rules in Australia have impacted the long-term viability of the business.

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One-off charges for FY18 approximating $130m that are expected to be incurred include:

- Restructuring costs of around $90m, with $80m (US$60m) relating to SAE operations in the US. Major expense items relate to:
    - provisions for onerous leases;
    - write down of property, plant and equipment;
    - provisions against long term SAE US student debtors; and
    - staff redundancies at SAE Los Angeles and San Jose colleges;
- Approximately $10m (US$7m) write down in the carrying value of US deferred tax assets; and
- Non-cash goodwill impairment charges of $30m including $25m for SAE, $4m for Health Skills Australia, and $1m for the conversion of SAE Indonesia to a licensed operation.

An additional $8m of ‘teach out’ costs are expected to be incurred in FY19 and $5m in FY20, subject to the Company’s ability to find alternative providers.

The ongoing businesses affected by this rationalisation will incur operating cash costs for the onerous leases and teaching costs until closure or divestment. An incremental cash impact of the FY18 charges of approximately $5m will be incurred in FY19.

Navitas will host a conference call for shareholders and investors at 9.00am AWST / 11.00am EST 18 July 2018. Dial in details are below:

Conference ID:	**325597**
Australia Toll Free:	**1 800 558 698**
Alternate Australia Toll Free:	1 800 809 971
Australia Local:	02 9007 3187
New Zealand Toll Free:	0800 453 055
NZ Local (Auckland):	09 929 1687
NZ Local (Wellington):	04 974 7738
NZ Local (Christchurch):	03 974 2632
China Wide:	4001 200 659
Canada:	1855 8811 339
Hong Kong:	800 966 806
Singapore:	800 101 2785
UAE:	8000 3570 2705
United States:	(855) 881 1339
US Local (New York):	(914) 202 3258
US Local (Los Angeles):	(909) 235 4020
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About Navitas

Navitas is a leading global education provider that offers an extensive range of educational services through two major Divisions to students and professionals including university programs, creative media education, professional education, English language training and settlement services. Navitas is a S&P/ASX200 company. Further details about Navitas are available at www.navitas.com