

OPERATING ENVIRONMENT

ADvTECH's schools, tertiary and resourcing divisions operate within an environment filled with challenges and opportunities.

With several decades of experience in providing education and training, we are undoubtedly the market leader. We remain well positioned to continue growth, despite new players entering the market.

The growth in the demand for and provision of private education is good for the sector as a whole, and also for ADvTECH with our unique value proposition and in particular our focus on academic excellence.

Given the constraints in public sector education, more and more parents are investigating alternatives in the private sector.

This is where our strategy of providing high quality education tailored to the needs of specific communities, to best prepare young people for future success in a changing world, differentiates us.

Globally, private universities are seen as complementing the higher education offering, just as private schools do in the basic education sector. Private universities are viewed as a healthy part of a diverse university sector.

However, in South Africa, the regulatory environment does not currently allow private higher education institutions to use terms such as "university", which means that the private higher education sector is often not well understood.

Because private higher education institutions may not, by law, call themselves private universities, the ability to clearly communicate offerings in this sector remains constrained.

However, through a concerted and sustained campaign by private providers, the general public's understanding of the environment continues to shift.

In addition, perceptions regarding affordability are also changing.

While fees are at times higher at private institutions, the quantum difference is not

always as significant as assumed – particularly when success rates and other differentiators are taken into consideration. In many instances there is, in fact, very little difference.

Private institutions, including ADvTECH's schools and tertiary institutions, do not receive subsidies and are thus dependent on student fees. However, unlike many lower fee options in the public sector, ADvTECH invests consistently in state-of-the-art campuses, up-to-date teaching and learning methodologies and professional academic staff with a solid track record to develop our curricula and teach our students. These investments pay off in terms of academic success, throughput rates and employability, and ultimately deliver financial benefits to learners and students.

In recent years, and particularly last year, there have been numerous negative developments in the public sector, raising questions about its potential impact on the private sector.

At schools level, South Africa scored worst of all countries surveyed in the latest report by the International Association of Evolution of Educational Achievement and UNESCO. According to the report, 78% of South African pupils in Grade 4 were considered to be illiterate.

At higher education and tertiary level, an unexpected announcement by then President Jacob Zuma on 16 December 2017, that tertiary education would in future be free, went against the advice of the Heher Commission. It also did not detail a roll-out strategy.

Additionally, some have suggested that there will be an influx of students and learners into the private sector, given the challenges and often volatile developments in the public sector.

But while developments in the public sector remain important to consider on a macro scale, they do not have a marked influence on our operating environment.

For instance, student numbers at the Independent Institute of Education (IIE), our higher education, or "private university" division as the media sometimes call it, has shown strong growth for several years.



Please refer to pages 28 to 31 for more information on the IIE.

Yet this growth does not come on the back of push factors in the public sector, but rather pull factors related to our offering and greater

public understanding of how a high-quality education offering paired with a work-ready focus increases employment opportunities in several disciplines.

There has been some impact on school enrolments as a result of families emigrating and the tough economic environment. We expect, should the promises of a new administration and improved economic growth in South Africa come to fruition, that emigration and affordability will have less of an impact in coming years.

We continue to believe that there is room in South Africa for the public and the private sector to proceed with a unified higher education strategy as partners. This will increase access to higher education and student prospects because of a better matching of individual requirements with the available opportunities.

Despite certain challenges that remain, in terms of an optimal partnership between the public and private sector, these exact same challenges continue to be a strength for ADvTECH in terms of retaining its leadership position in private education.

While new entrants into the market correctly identify the massive growth opportunities, their capacity to realise these opportunities is impeded by bureaucratic and regulatory constraints. This landscape, however, is one that ADvTECH has navigated for decades. During this time we have built valuable relationships and, crucially, the requisite administrative structures to ensure the successful registration and accreditation of new institutions and qualifications.

As we grow our footprint in the rest of Africa, both through acquisitions and greenfield developments, our experience and track record combined with the fact that we partner with experts in the business, will help us extend our high-quality offering in other growth markets.

The resourcing division continues to lead the field as a result of its focus on the new skills required in coming years. Because of the unstable political and socio-economic environment, companies remain cautious and seek to ensure that candidates are not only technically competent, but also have the soft skills and creative thinking skills that will be required in the face of increasing automation.



Refer to our stakeholder relationship report on page 42, our strategic objectives in the CEO's report on pages 18 to 21 and how we manage and mitigate these risks on pages 10 to 15.