

## Taaleem Q1 2022/23 Earnings Call Transcript

Taaleem (TALM.CA) Q1 2022/23 - January 16, 2023

### Call Coordinator:

Alaa Tolba - CI Capital

### Corporate Participants:

Mohamed El Rashidi - Managing Director

Khaled Khater - Chief Financial Officer

Ahmed Zayed: Head of Investor Relations

### Investors and Analysts:

Alaa Tolba - CI Capital

Kiran Thammaneni - Jarir Investments

Mirna Kozman - EFG Hermes

Mohamed Saad - Allianz Egypt

Mostafa Seada - NI Capital

Noha Ayman - Allianz Egypt

Saleh Elrakaf - GIB capital

Selim Afifi - Ajeej Capital DIFC

### Presentation:

**Alaa Tolba:** Hello everyone, I am pleased to have on the call today Mohamed El Rashidi - the Company's Managing Director and CEO, Khaled Khater, the Company's CFO, and Ahmed Zayed, Head of Investor Relations. As usual, we will start off with a brief presentation by the management and then we will open the floor to questions and answers.

**Ahmed Zayed:** Good afternoon, ladies and gentlemen. Thanks for being with us on Taaleem's results call for Q1 2022/23. Thank you also to the team at CI Capital for hosting our call today. On the line with me are Taaleem's Managing Director, Mohamed El Rashidi, and our Chief Financial Officer, Khaled Khater.

Mr. Rashidi will provide an overview of Taaleem's performance during the period and then leave the floor to Mr. Khater, who will offer an overview of Taaleem's financial results for Q1 2022/23. After that, the floor will be open to your questions.

Before we begin our discussion today, I would like to read out this general disclaimer. The information and opinions contained on this call, provided as of today's date, are based on general information gathered at such date and are subject to changes without notice. None of the future projections, expectations, estimates, or prospects discussed on this call should be taken as forecasts or promises. Such forward-looking statements contain known and unknown risks, uncertainties, and other important factors, which may cause the Company's actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

**Mohamed El Rashidi:** Thank you, Ahmed. Hello, everyone. This is Mohamed El Rashidi speaking and thank you for joining today's call.

This quarter represents our first markings of growth for 2023. Financially, we have seen growth and enhanced margins across our P&L, reflecting a number of important milestones achieved during the quarter. We booked a total revenue of EGP 230mn, reporting a 34% YoY increase, and recorded a very strong EBITDA margin of 65%, on cost efficiencies and revenue growth. Our net profit during the quarter came in at EGP 108mn, with a healthy 47% margin. These results are a testament to our highly effective platform-based business model and our ability to deepen economies of scale, extract cost efficiencies, and optimize our business.

This quarter's growth was clearly manifested at NUB through the 13% YoY growth in the university's student body, reaching a total of 6,913 students. This includes students enrolled in the newly launched Faculty of Arts, which brought our operating faculties to 9 this year and our licensed student capacity to 12,350. Our campus wide expansions are still ongoing, with a plan in place to launch the Faculty of Architecture in the academic year of 2023/24, increasing our operating faculties to 10 and student capacity to 13,350.

I am also exceedingly proud that we were able to secure an agreement to acquire a new university in East Cairo last November, which further expands our geographic footprint and allows us to serve a wider geography and student base. The university is planned to be built on an area of 80k square meters with a capacity to host 7 faculties and about 10,000 students. With this new acquisition, we are clearly witnessing Taaleem's future growth secured, having a portfolio that includes one operating asset in Beni Suef and two assets under development in East and West Cairo. Once all three assets have been fully completed, we could potentially reach a combined capacity of 37,660 students.

Our new projects are planned strategically with an eye on the long-term growth prospects of Taaleem. We aim to diversify our geographic footprint to serve a wider student base with customized value for money high-quality tertiary education through tailored academic offerings that suit the needs of each university's target audience.

It is also very important to understand that the Egyptian market is an extremely fertile environment for Taaleem's growth, which is clearly implied by various macroeconomic and sector-related indicators including the country's youthful population, low university penetration, and public budget cuts on higher education. Such factors are pushing the private sector's strong and rapid growth. In that regard, I believe that Taaleem will continue demonstrating its strong growth potential and delivering on its promises. It is also important to mention that the aforementioned indicators combined with global macroeconomic conditions pose not only a challenge but also a great opportunity, as they form a powerful barrier to entry for new players, securing Taaleem's position as a leading provider of higher educational services in Egypt.

To conclude, we are very confident that our highly effective platform-based business model that is grounded on strong supporting and enabling functions at the holding level will allow us to replicate and even enhance the success we've seen at NUB and in our upcoming assets.

With that, I would like to hand the line over to Khaled, who will walk you through our detailed financial performance for the first quarter of 2022/23.

Khaled...

**Khaled Khater:** Thank you, Mohamed. Good day everyone.

We exhibited strong financial and operational performance across the board during Q1 2022/23, a testament to our cost efficiency and ability to translate revenue growth to profitability.

- Taaleem booked a total revenue of EGP 230mn in Q1 2022/23, up by 34% YoY. This is mainly due to the 13% YoY increase in NUB's student base, reaching 6,913 students. The growth was also attributable to the recognition of 8 additional revenue days of the first semester of the AY compared to Q1 2021/22. Normalized for the difference in revenue recognition days, revenue grew 21% YoY.
- Operating cost for the period rose 11% YoY, coming in at EGP 56mn. Excluding depreciation & amortization expenses, operating cost grew 19% YoY mainly on the 12% YoY growth in salaries and wages reflecting the annual salary raise. Salaries/Sales ratio came in at 9% during Q1 22/23 compared to last year's 10%.
- General & administrative expenses reported EGP 40mn, growing 24% YoY. Normalizing for the ESOP reserve booked in Q1 22/23, G&A grew 18% YoY. The growth in G&A is primarily owed to the 50% YoY rise in other expenses related to university events, followed by the 15% YoY increase in non-academic salaries and wages, which recorded a lower Salaries/Sales of 6% compared to the preceding year's 7%.
- We booked an EBITDA of EGP 150mn, growing 42% YoY with a strong 65% margin. Excluding the ESOP reserve booked in Q1 22/23, adjusted EBITDA would have grown by 44% YoY with a 66% margin. Adjusting for the difference in revenue recognition days, normalized EBITDA grew 23% YoY.
- EBITDA filtered down to a strong net profit of EGP 108mn, reporting a 50% YoY growth and a strong 47% margin, reflecting Taaleem's exceptional ability to translate revenue growth to profitability.
- Our CapEx for the period was EGP 61mn, recording a CAPEX/revenue ratio of 27%. 91% of Taaleem's CAPEX for the period was disbursed on growth initiatives, including the university hospital and the new faculties of Arts and Architecture.

With this, ladies and gentlemen, we conclude our discussion of Taaleem's Q1 2022/23 results and open the floor to your questions.

Operator, could you please open the floor to the Q&A?

**Alaa Tolba:** Thank you, gentlemen for the presentation. To ask a question, you can either click on the raise hand button and I will unmute your line or type your question in the Q&A box. We will wait for a few moments for the attendees to place their questions. We will take our first question from Saleh Alrakaf. Your line is now open.

**Saleh Alrakaf:** Thank you for the call. This is Saleh Alrakaf from GIB capital. I have just one question regarding your CAPEX. Can you reiterate how much is the interest capitalized out of the EGP 61mn?

**Khaled Khater:** Until now, we don't have any facilities from the banks when it comes to our CAPEX, all our CAPEX outlays were expenses paid to our contractors.

**Saleh Alrakaf:** Okay, that's it from my side.

**Khaled Khater:** Thank you.

**Alaa Tolba:** Our next question comes from the chat from Mohamed Saad. He is asking for your guidance for earnings and EBITDA for the year 2023.

**Ahmed Zayed:** Our revenue is expected to achieve double-digit growth, in the twenties. Our EBITDA margin is expected to reach the high fifties mark.

**Khaled Khater:** Yes, and to a large extent, our performance for the first quarter represents our full year results because we collected our revenue from students that are already enrolled in the university, also a large portion of our cost structure is fixed, whether that be salaries or contracts.

**Alaa Tolba:** Thanks Khaled, the next question from the chat is from Selim Afifi. He is asking about Badya university and where the expansion stands now that the environment has become more expensive? There is also another question concerning the University in New Cairo. We will address the Question regarding Badya first and then I will read out the second question.

**Khaled Khater:** Currently, the contractor is mobilizing the location to start phase 1 of the construction process. We have already started the excavation of the land 3 months ago so that construction can begin, and we are ready now to start the construction of the first phase. We keep revising our cost estimates, given the rate of inflation and the disruptions in the supply chain. Luckily, however, we agreed with the contractor on the cost of the first phase, which is not materially different compared to our existing plan.

**Alaa Tolba:** Thanks Khaled, Selim has raised his hand. Selim, your line is open now.

**Selim Afifi:** Thank you. I hope everyone is doing well and congratulations on the results. Concerning Badya, I know you have an agreement regarding costs with the contractor, but do you believe it is still viable to go ahead with the much more expensive cost structure? Do you think that the rising costs will delay the break-even point of the university to a point that is much later than the one you first anticipated?

**Mohamed El Rashidi:** Allow me Selim to give you a wider view of the situation. The demand-supply gap is widening every academic year. We have recently revised Badya's business model and its viability, including the cost inflation of the project, and we found that the project will still yield the results targeted by the shareholders. In that light, the project is going on as planned and the increasing costs are in the favor of Taaleem because they pose as a barrier to entry to the market where the demand gap is growing year after year.

**Selim Afifi:** Okay, that makes sense.

**Ahmed Zayed:** It is an ongoing process, of course. We are making sure to constantly update our model in relation to increases in cost items.

**Mohamed El Rashidi:** It is important to note here that Taaleem has chosen four strategic geographies to target such as East and West Cairo, Upper Egypt, and the Delta. We have already covered East and West Cairo, which were the main strategic geographical targets for Taaleem. They represent almost 60% of the purchasing power, which is a very high concentration, in addition to the fact that the factor of affordability does not hold as much weight in Greater Cairo as it does in Upper Egypt.

**Alaa Tolba:** Our next question comes from Mostafa Seada. His question is: What is the expected CAPEX for this year, including that of the East Cairo University?

**Khaled Khater:** Our budgeted CAPEX for the year at NUB is EGP 374mn for the hospital's construction and the additional faculties. As for Badya, we have already budgeted EGP 516mn for the first phase of construction. For the university in New Cairo, we are already fulfilling the transaction's criteria and we are targeting September as the date for the launch of the first phase with an estimated CAPEX of EGP 750mn, excluding the land cost, which is already owned by the founding entity.

**Alaa Tolba:** Thanks Khaled. The next question comes from Noha Ayman, she is asking whether you expect the cash flow to be adequate for the upcoming investments and expansions, or will there be need for new debt?

**Khaled Khater:** Badya's debt structure has already been determined, with 60% being debt and 40% equity. The cash available is quite adequate to finish the construction of the hospital and the new faculties that will be added. Add to that the equity participation in Badya university and New Cairo is already covered.

**Alaa Tolba:** Thank you. As a reminder, you may submit a question in the Q&A box or raise your hand and I will unmute your line. Our next question comes from Kiran Thammaneni. He is asking if you are planning to issue mid-year salary increases on account of the rising inflation, and he would like you to comment on whether there will be any hikes in tuition fees this year for the new students in comparison to the existing students.



**Khaled Khater:** We will not be increasing salaries again until next September, noting that we already increased our employees' salaries last September. Now, we are 6 months away from our next annual salary increase.

As for the students at NUB, we have implemented an 8% increase in the tuition collected for this year in comparison to last year. We are currently assessing the tuition increase for the coming year, taking into consideration the inflation rate, the competition, and the quality being offered compared to other private universities.

**Alaa Tolba:** Khaled, is the 8% increase on a blended basis?

**Khaled Khater:** Yes.

**Alaa Tolba:** Is it possible to quantify or split between the new intakes and the existing students. I think Kiran is trying to get a better understanding of the percentage increase for both groups.

**Mohamed El Rashidi:** We have a funnel of different initiatives, including increasing the quota for existing faculties or ramping up existing faculties that were newly introduced. Add to that the maintenance of the older faculties. Thus, we work collectively in assessing faculty by faculty while considering the competitive landscape of each program and its affordability. The reason we say our tuition increase is on a combined basis is because we collect tuition based on the average tuition per student, which increased from EGP 37k in 2016 to EGP 106k this year, that is the methodology we follow.

**Alaa Tolba:** Thank you Mohamed. As a final reminder, if you have a question please type it out in the Q&A box or press the raise the hand button and I will unmute your line. We have a question from the chat from Mirna kozman. She is asking about the possibility of tuition increases in the spring semester and if there will be, what will be the magnitude of such an increase?

**Khaled Khater:** No, normally tuition increases occur in September/October at the start of the academic year. We cannot raise the tuition fees during the spring semester.

**Mohamed El Rashidi:** Allow me to explain our tuition model. The budget we create at the beginning of the academic year includes all our cost elements, which are mostly fixed in nature, and we determine our tuition fees on that basis. After that, the enrollment agreement between the university and its new students is considered contractual, which means it must be retained until the end of the academic year. It is stated within the enrollment document that the student accepts annual increases, not mid-year increases. That is how all private universities in the country operate.

**Alaa Tolba:** It appears there no more questions, so we will hand the line back to you for any concluding remarks.

**Mohamed El Rashidi:** To conclude, Taaleem's business model has proven its sustainability and strength, as it allows us to leverage our competitive advantages and economies of scale, in addition to expanding our footprint. Our strength also lies in our focus on one sector, higher education, which enables us to retain and even enhance our margins. As we have demonstrated last year, it is a long route to growth, and our operating model provides us with a very strong base for that growth.

It is also important to note that the current market dynamics pose as a barrier to entry for other potential market players, leaving room for Taaleem to grasp the opportunities in the market. I am also very comfortable to say that I believe Taaleem's current growth momentum will continue to expand, especially after the government's rectification of sector challenges last year.

Alaa, thank you for hosting the call.

**Ahmed Zayed:** Of course, if anyone has any follow up questions, please do not hesitate to contact the investor relations department. You may contact us at [ir@taaleem.me](mailto:ir@taaleem.me). Thank you.

**Alaa Tolba:** Thank you gentlemen for your time and thank you everyone for participating. Have a nice day.