

## Taaleem Q1 2023/24 Earnings Call Transcript

Taaleem (TALM.CA) FY 2023/24 - January 17, 2024

### Call Coordinator:

Mai Nehad - CI Capital

### Corporate Participants:

Mohamed El Rashidi - Managing Director

Khaled Khater - Chief Financial Officer

Ahmed Zayed: Head of Investor Relations

### Investors and Analysts:

Nada Hashim- CI Capital

Tinashe Hove- laurium Capital

Matthew Hodgkinson - Confluence Impact Fund

Salwa Youssef - Beltone Asset Management

Mariam Ramadan - AAIM

Tamer Abdelhady- NBE

Marina William - Al Ahly Pharos

Kiran Thammaneni- Jarir Investment

Adham ElGhandour - Azimut

Noha Ayman - Allianz Egypt

Alaa Tolba - PIF

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### Presentation:

**Mai Nehad:** Hello everyone, thanks for dialing in. This is Mai Nehad, from CI Capital Research, I would like to welcome you all to Taaleem Management Services' Q1 2024 Results Conference call hosted by CI Capita. I have the distinct pleasure to have on the call today Taaleem's Managing Director Mohamed El Rashidi, CFO, Khaled Khater, and Head of Investor Relations, Ahmed Zayed.

As usual, we will start off with a brief presentation by the management team and then we will open the floor to a Q&A Session. Please use the built-in Q&A Box to type any questions you may have throughout the call.

During the Q&A Session, participants will also have an opportunity to have their microphones enabled to speak directly with company management. I now give the floor to Ahmed. Please go ahead.

**Ahmed Zayed:** Good afternoon, ladies and gentlemen. Thanks for being with us on Taaleem's results call for Q1 2023/24. 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 Mr. Khater will provide an overview of Taaleem's financial results for Q1 2023/24. 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, that 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.

I now hand the line over to Mr. Rashidi.

**Mohamed El Rashidi:**

Thank you, Ahmed. Good day, everyone. This is Mohamed El Rashidi speaking, and I appreciate your presence on today's call.

I am pleased to announce that Taaleem has attained outstanding results in the latest quarter, signaling a robust start to the fiscal year and underscoring our unwavering commitment to financial and operational excellence.

Regarding financial performance, we have delivered remarkable outcomes for Q1 2023/24, showcasing substantial revenue growth. Taaleem has reported a total revenue of EGP 392 million, reflecting an impressive 71% year-over-year increase. Our commendable EBITDA margin of 73% stands as evidence of both cost efficiencies and sustained revenue growth. In the quarter, our net profit reached EGP 221 million, boasting a robust 56% margin and 104% YoY increase.

Our remarkable financial performance is mainly attributed to the exceptional increase in enrollment at NUB, which has seen an outstanding 33% growth in student numbers compared to the previous year. This growth came with a positive impact on our revenue mix, particularly with a significant 37% increase in students enrolled in our medical programs. Additionally, this quarter's numbers reflect the full utilization of the new intake quota of the Faculty of Computer Science, which increased from 200 to 450 students at the commencement of the ongoing academic year, showcasing the program's high quality and appeal to the market.

Our vision extends further as we set our sights on the future of healthcare education. In the coming years, we are resolute in introducing two additional faculties: Nursing and Medical Sciences, currently undergoing licensing procedures. These additions will not only complement our existing medical cluster but also enhance the educational experience at NUB by fostering a collaborative and multidisciplinary learning environment. Additionally, I am proud to announce that the full launch of NUB Hospital is imminent. Equipped with state-of-the-art facilities, NUB's hospital is poised to serve as both a teaching hospital and a primary healthcare provider in its community.

Regarding developments in Badya University, since obtaining its license, the university's construction has made significant progress, rapidly advancing toward completion. We eagerly anticipate opening our doors in September 2024 and embarking on this transformative journey alongside our future students. In terms of academic partnerships, I am delighted to share that Badya University has recently entered into an affiliation agreement with Texas University Medical Branch, facilitating collaboration in student and faculty exchange programs, joint research initiatives, the exchange of academic information, and collaborative professional development opportunities.

As for our plans for Memphis University, the process of obtaining necessary licensing approvals is progressing well, with efforts focused on acquiring cabinet approval and the issuance of the presidential decree. Phase One of construction is currently underway, bringing our vision closer to reality. Further details about the launch plan will be shared in due course.

Looking ahead, we are filled with enthusiasm about the endless opportunities that await us. Our commitment to delivering high-quality education remains unwavering, and we are dedicated to making a positive impact on the lives of our students.

With that, I would like to hand the line over to Khaled, who will walk you through our detailed financial performance for Q1 2023/24.

Khaled

**Khaled Khater:**

Thank you. Good day, everyone.

We achieved exceptional financial and operational results in Q1 2023/24, demonstrating our commitment to excellence and ability to turn revenue growth into profitability.

- Taaleem booked a total revenue of EGP 392mn in Q1 2023/24, up by 71% YoY. Normalizing for the difference in revenue days recognized between Q1 2024 and Q1 2023, revenue increased by 56% YoY on the back of a 33% YoY increase in the student body, along with the increase in the average revenue per student by 17% YoY (12% annualized).
- Operating cost for the period recorded EGP 70mn, up by 25% YoY, mainly coming from the rise in salaries and wages by 30% YoY, reflecting the annual salary raise and the cost of new hires to accommodate the increase in students, while recording a salaries/sales ratio of 7%, lower than the preceding year's 9%. The increase in operating cost is also attributed to the rise in educational activities expenses by 38% YoY, driven by the increase in the number of students, in addition to the exchange rate impact on educational cost items (laboratory materials and affiliation payments).
- General and administrative expenses grew 33% YoY, totaling EGP 53mn. Adjusting for the ESOP expense and other non-recurring items booked in Q1 23/24, G&A grew 36% YoY. The growth in G&A is primarily owed to a 35% YoY increase in non-academic salaries and wages, recording a lower Salaries/Sales ratio of 4% compared to the preceding year's 6%, followed by the professional fees increase of 68% YoY due to the EGP devaluation and additional services related to Taaleem's M&A and new projects.

- We booked an EBITDA of EGP 286mn, growing 91% YoY with a strong 73% margin. Excluding the ESOP expense and non-recurring items, adjusted EBITDA grew by 90% YoY with a 73% margin. Normalizing for the difference in revenue recognition days, normalized EBITDA grew by 66% YoY.
- As of Q1 23/24, we stand on EGP 440mn in cash & cash equivalents, while total debts stood at EGP 829mn, reflecting a net debt position of EGP 389mn, which comes in line with the company's growth and capital structure optimization plans.
- Our CAPEX for the period was EGP 369mn, with 22% allocated to NUB and 78% for Badya's Phase One. 97% of Taaleem's CAPEX for the period was disbursed on growth initiatives, including Phase One of Badya University, NUB's university hospital, and the new faculties of Arts and Architecture.

With this, ladies and gentlemen, we conclude our discussion of Taaleem's Q1 2022/24 results and open the floor to your questions.

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

### Questions & Answers:

**Mai Nehad:** Thank you very much to Taaleem's management team for the presentation. We will now open the floor to questions. If you would like to ask a question, please use the raise hand button to have your microphone unmuted, alternatively, you can type your questions in the dedicated Q&A box. We will have a few moments for the attendees to pose their questions.

**Mai Nehad:** I can start with a question from my end until more questions come in. Just on the intake of this year, the impressive number of intake and how sustainable do you think this will be for NUB going forward, and your expectations for Badya as well?

**Mohamed El Rashidi:** Can you elaborate more on sustainability?

**Mai Nehad:** Yes, I mean, because you mentioned, I think in a previous call that there was an influx of some students, whether international students or students coming back from disputed areas. So, do you think this trend or the commendable number that we've seen this year will sustain?

**Mohamed El Rashidi:** Let me just elaborate that the part of the student's influx was distributed for the second and third year; we presented only a thousand students. This will be covered next year by the new faculties that will open and be added as a replacement for the growth and the rest is a normal ramp up and growth for the funnel of NUB.

**Khaled Khater:** Also, we rely mainly on the normal and the usual ramp up and we have our main target, last year we enrolled 1,868 students and we continued to increase our targets. We crossed the 2,000 student's mark. We think we'll achieve a higher number next year. As we are targeting a higher number, adding to that expected enrollment for Badya University and noting that we target not only the number of students but a certain profitability and revenue growth, as we have a lot of Matrix other than the number of students.

**Mai Nehad:** Yes. Thank you very much. And we have a question from Matthew Hodgkinson, he is asking assuming construction remains on track. How many students are you expecting for Badya University for 2024/25 and what will be the fees level as a percentage of NUB?

**Khaled Khater:** It would be considerably higher than NUB. It's a different position, and the number of the students. Also, it will not be volume driven enrollment, it will be price given enrollment and

revenue driven enrollment, not volume driven. The tuition fees would be higher than Nahda University and the number of students may be a little bit less.

**Mohamed El Rashidi:** In the 4 targeted faculties to operate in September 2024. Badya's position as a top tier university. It depends on a smaller group of education and higher education quality which is reflected in a much higher tuition, as we partnered with UTMB. UTMB is one of the top 50 medical universities in the world. Accordingly, it is a different positioning and proposition to the market.

**Mai Nehad:** Yes, clear. We have another question from Adham, also asked about the number of the expected number of students and the average tuition for Badya?

**Mohamed El Rashidi:** That's too much to share. That's way beyond the borders of guidance. One thing to show you that construction is on track, we are expected to receive the buildings on 31 March 2024. If there is a delay in the pack of the project manager, only 9 days of delay along the plan so far. The site, the landscape, and the student activity areas will be followed by 1 month after delivery timing. Again, we have a very good reserve in time to capture any delays that might arouse but we are almost done.

**Mai Nehad:** Okay, thank you. We have a question from Nada Hashem, please go ahead.

**Nada Hashem:** Hi, is there any chance to revise the CAPEX for Badya?

**Khaled Khater:** For Badya, we took a lot of measures to contain the inflation and to control the CAPEX of the project like increasing the down payment for contractors and signing and locking the contracts for most of the construction at Badya. We signed the contract for all the 7 Finnish and electromechanical works, and we signed the contract for the infrastructure, the outdoor infrastructure, wet and dry infrastructure, and for the whole land. So, we're talking about lock prices in contracts with top-tier contractors. As I said, we increase the down payment to secure and instruct the contractor to procure all the materials required. So, we don't expect a hike or increase in Badya's capex. The last assessment we did comparing the final cost of phase one against our budget was minimal increase because of the measures is just said.

**Mai Nehad:** Thank you. We have another question also about the CAPEX for Badya, and how do you expect us to deal with higher-than-expected costs. I believe this has been answered. We have a question from Noha Ayman. What is the planned capex for this year and the next?

**Khaled Khater:** We have a plan for EGP 1.7 billion of CAPEX, breaking down to 300 million at Nahda University for the extension of land, the equipment of the Hospital, the Faculties of Arts and Architecture, and the infrastructure for 110 thousand square meters of the new campus of Nahda university which will be utilized to add additional faculties like nursing, Health sciences, and the launch of Architecture Faculty. The rest of the EGP 1.7 billion is EGP 1.4 billion for Badya's phase one during this year.

**Mai Nehad:** Thank you. Our next question is from Marina William. Are the margins achieved during the first quarter sustainable for the rest of the year or shall we expect to squeeze?

**Khaled Khater:** The range achieved after the normalization of the revenue recognition days is a good guidance for our full year results, because the first quarter of the year is a good guidance for the rest of the year because we have the students, we already increased the tuition fees by a certain percentage. So, after the normalization of the dailies.

**Mai Nehad:** Thank you. The next question is from Tinashe Hove. Good afternoon and congrats and well done on the great results. Given the high cost of living and inflation in Egypt today, is there scope to increase salaries for both academic and administrative staff further in this calendar year over and above the 11% average increase already reported so far?

**Khaled Khater:** For this year, No. Because we have already increased the salaries by 20% at the beginning of the year since September 2023. We are now planning for the increase in September 2024, so the only increase that will be applied is for September 2024 for the academic here or FY 2024/25. We provide other facilities to staff through additional hours and other tools that we use to optimize the cost and give them the ability to cope with inflation.

**Mai Nehad:** Thank you very much. Another question from Tamer Abdelhady, asking for your expectations regarding next year's revenue, profit, capex and also if you're planning for cash distribution.

**Khaled Khater:** Refer to the guidance, for the revenue and profit. We just gave guidance on the CAPEX for this year. For cash distribution. You mean in dividends?

**Mai Nehad:** I believe so.

**Khaled Khater:** Okay, we don't see any payout for the foreseen future because of the growth plan and the CAPEX required, and we believe that using the cash to support our growth and increase the volume and the support of the growth plan of Taaleem is better for the shareholders, and for the best interest of the shareholders.

**Mai Nehad:** Thank you and another follow-on question. Are you planning on taking more loans in the near future?

**Khaled Khater:** More loans, no, we have EGP 450 million facility at Nahda university, which was utilized to develop the Faculty of Medicine Hospital and for Arts and Architecture. We already reached the ceiling of this line. For Badya, we have the plan to finance 60% of the construction and the capex, through debt. So, for phase one for the EGP 1.4 million, I just mentioned for Badya, 60% would be used during this year. So around EGP 840 million. So, for the first quarter we have EGP 829 million in outstanding debt on the balance sheet. EGP 450 million at Nahda University and EGP 380 million used for Badya year the number will increase to EGP 840 million by the end of the year.

**Mai Nehad:** Thank you. Before taking our last question, as a reminder to our participants, if you would like to ask a question, please type it in now or use the raised hand button. We have a follow-on question from Adham Ghandour, asking for the premium that could be applied to Badya University tuition compared to NUB.

**Ahmed Zayed:** It will be the range of 40 to 50%, but again this definitely depends on the exercise of the pricing exercise that we do before that academic year, which takes into consideration many factors including our cost, the competition, the supply and demand of the market, the market dynamics and so on.

**Khaled Khater:** Our long-term plan for enrollment, It will not depend on that the first year or the second year, it's long term plan to provide quality education against the right price, premium for the price.

**Mai Nehad:** As a final reminder, if you would like to ask a question. Please type it in now or use the raise hand button at the bottom of your screen. There seem to be no further questions. I will hand over the call to Taaleem's Management team, if you have any concluding remarks.

**Mohamed El Rashidi:** Okay, as a closing note, I would like to take this opportunity to appraise Taaleem's Management team. As we all know, Taaleem was born in 2016 with the aim of establishing an institutional organization specialized in higher education in Egypt. Ever since the management team has managed to commit to the vision throughout all the challenges that we confronted over the past 7 years whether from Corona and shutdown evaluations, or inflations that hit us through past period while carrying on their shoulders the responsibility of achieving the vision and executing all the initiatives of the business that brought Taaleem to where it stands today reaching a new height and showed also the resilience and sustainability of the company and its business model throughout the previous period. As we stand today, we are embarking on the next big wave of growth where our operating asset NUV is delivering, staggering growth numbers and will be coupled next year with our jewel of the crown, Badia University and the year after with our third asset, Memphis University operating in East Cairo. I thank the team for their relentless efforts during our journey and I'm very confident that going forward from the experience we all gained and the team spirit we will achieve and deliver all our dreams. Also, special thanks to the board members of Taaleem for their continuing support and also a very valuable contribution throughout this journey. Finally, I would like to thank our shareholders for the confidence they put in Taaleem and our team and hope to be always meeting their expectations. A special thanks to Tinashe for his contingent's belief in the company and it's very close follow up. Thank you so much everybody for joining our call today. And I hope we'll see you next quarter with more positive and good news.

**Mai Nehad:** Thank you very much. On behalf of CI Capital, I would like to thank the Taaleem's management team for their time and comprehensive responses today. And thank you all for dialing in. And have a good rest of the day. Goodbye. Thank you so much.