

## Taaleem Q3 2022/23 Earnings Call Transcript

Taaleem (TALM.CA) 9M 2022/23 - July 19, 2023

### Call Coordinator:

Amr Amin - CI Capital

### Corporate Participants:

Mohamed El Rashidi - Managing Director

Khaled Khater - Chief Financial Officer

Ahmed Zayed: Head of Investor Relations

### Investors and Analysts:

Sarah Ghobrial - CI Capital

Tinashe Hove- laurium Capital

Salwa Tarek- Beltone Asset Management

Mahmoud Gharib-Cairo Financial Investment

Yasser Al Qahtani- Jarir Investment

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### Presentation:

**Amr Amin:** Hello, and welcome everyone to Taaleem Management Services' third quarter for financial year 2023 results conference call hosted by CI Capital, my name is Amr Amin, Head of Corporate Assets at CI Capital, and today I have the distinct pleasure of introducing Managing Director Mohamed El Rashidi, CFO, and Head of Investor Relations, Ahmed Zayed.

Following an overview of Taaleem's quarterly performance, the floor will then be open to a Q&A Session. Please use the built-in Q&A Box to type any questions you may have throughout the duration of 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's aid.

**Ahmed Zayed:** Good afternoon, ladies and gentlemen. Thanks for being with us on Taaleem's results call for 9M 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 Mr. Khater will provide an overview of Taaleem's financial results for 9M 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.

I now hand the line over to Mr. Rashidi.

**Mohamed El Rashidi:**

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

Once again, we have witnessed sustainable growth and enhanced margins across our P&L, reflecting our exceptional ability to navigate through challenging economic conditions and yield positive results. We reached a total revenue of EGP 718mn, reporting a 20% YoY increase, along with a solid EBITDA of EGP 474mn with a margin of 66% that reflects our revenue growth and cost optimization measures. Our net profit landed at EGP 345mn, increasing by 24% YoY with a healthy 48% margin. Operationally, I am pleased to share that we are making steady progress with our expansion plans on multiple fronts. Starting with Nahda University in Beni Suef (NUB), we are expanding our medical offerings by working on the development of two new faculties, namely Nursing and Health Sciences. We aim to finalize the licensing process and complete the development of these faculties during the upcoming academic year, with operations set to begin in the academic year of 24/25.

Moving to Badya University, on the licensing side, the university's file is currently at the president's office for the issuance of the presidential decree, which marks the final step of the university's licensing. On the development side, the construction of the first phase of the university is progressing as planned. This phase consists of the faculties of Physiotherapy, Dentistry, Business and Economics, and Computer Science, which is expected to be launched by the 2024/25 academic year, welcoming new students in September 2024.

Regarding our new asset in East Cairo, as we announced on the 28th of May, we have successfully completed the acquisition of an under-development university in New Cairo after fulfilling all the transaction's conditions and required regulatory approvals. This brings Taaleem's ownership of the university to 32% with full operational and financial control over the university as per the Shareholders Agreement (SHA) between Taaleem and the founders. Following the completion of the transaction, we have directed all our efforts to the development of the university, utilizing the EGP 300mn capital injection to expedite the process. Concurrently with our progress in Badya, I am pleased to report on the completion of excavation work and the finalization of the tender process of phase one in our newly acquired university. The first phase of the university, encompassing the faculties of Dentistry, Engineering, and Business, is expected to be completed by the academic year of 24/25.

In addition to all these accomplishments that testify to Taaleem's confidence in expanding its geographic presence in Egypt and targeting a wider student base, we are also working on a management agreement with a new university in Alexandria. We will share more details on that once the agreement is finalized. In conclusion, Taaleem remains dedicated to exhibiting financial and operational excellence and committed to fulfil its expansion plans to deliver value to all stakeholders and maintain a leading position in the higher education sector. With that, I would like to hand the line over to Khaled, who will walk you through our detailed financial performance for 9M 2022/23.

**Khaled Khater:**

Thank you. Good day everyone.

We continued to exhibit strong financial and operational performance across the board during 9M 2022/23, maintaining our 2023 growth trend and reflecting our operational milestones, cost efficiency, and ability to translate revenue growth to profitability.

- Taaleem generated a total revenue of EGP 718mn in 9M 2022/23, up by 20% YoY, despite the base effect coming from recognizing 47% of AY20/21 summer term revenue in 9M 21/22. The growth is mainly driven by the 13% YoY rise in NUB's student base, reaching 6,913 students, the ramp up of the Faculties of Medicine and Physiotherapy, and the replacement effect. Normalizing for the difference in summer term recognition, 9M 2022/23 revenue grew by 22% YoY.
- Operating cost for the period increased 13% YoY, coming in at EGP 175mn, mainly on the 17% YoY growth in salaries and wages, recording a Salaries/sales ratio of 9%, equal to that of the comparable period, along with an increase in educational activities expenses by 26% YoY, driven by inflation.
- General & administrative expenses grew 24% YoY, landing at EGP 118mn, with an unchanged G&A/Sales ratio of 16% compared to the preceding year. The increase in G&A is mainly owed to a 25% YoY increase in salaries and wages, recording a Salaries/Sales ratio of 6%, equal to 9M 21/22, followed by 51% YoY increase in professional fees due to additional services related to Taaleem's M&A and new projects. Normalizing for the ESOP reserve booked in 9M 22/23, G&A grew only by 21% YoY.
- We booked an EBITDA of EGP 474mn, growing 19% YoY with a strong 66% margin. Excluding the ESOP reserve booked in 9M 22/23, adjusted EBITDA grew by 20% YoY.
- EBITDA filtered down to a strong net profit of EGP 345mn, reporting a 24% YoY growth and a strong 48% margin.
- As of 9M 22/23, we stand on EGP 287mn in cash and hold a total debt of EGP 350mn, reflecting a Net Debt position of EGP 62mn, which comes in line with the Company's growth and capital structure optimization plans.
- Our CAPEX for the period was EGP 175mn, recording a CAPEX/Sales ratio of 24%. 92% 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 9M 2022/23 results and open the floor to your questions.

### Questions & Answers:

**Amr Amin:** Thank you. To Taaleem's management team. We will now open the floor to questions as a reminder. You can type your questions in the dedicated Q&A box, or you can click or tap the raise hand button to have your microphone unmuted, to speak directly with company management.

We already have a question in the Q&A Box from Tinashe, from Laurium Capital, a few questions actually. Good afternoon, can you please guide on how you are thinking about the following:

- i) average tuition increases for the upcoming 2024 academic year?
- ii) your enrolment targets i.e., how many new students you are looking to recruit, net of exits and graduations?
- iii) the salary increases that your teaching and non-teaching staff can expect?

**Khaled Khater:** We look at it collectively. We look at the growth from different sources. The tuition increase, the volume at the replacement effects and the plan, and pricing plan going forward. The expectations for the coming year tuition will partially reflect the inflation, and it aligns with our plan for cost structure. We're talking about the cost structure and the expected salary increases. We expect around 20% increase in our salaries excluding any new hires and it's different from the staff cost, because the 20% is the salary increase excluding new hires to maintain our STR and the quality of education, and to hire admin staff for the new faculties we build and our growth initiatives and new projects.

**Mohamed El Rashidi:** So Tinashe, on your question also to make it easy for you, the base is a mix of value volume increase. At the old student base, we have almost a 5% increase on average. On the new intake, we have an average ranging from 15 to 20% increase. Also, it's worth noting that next year is going to be witness, and it will be reported very soon on the and with the enrollment report huge increment in the student base of the university, a significant number of returning students from 3 countries on an exceptional base from Sudan, Russia.

**Ahmed Zayed:** We will be sharing it by September.

**Khaled Khater:** And in conclusion, we are optimistic about the coming year to mark our exceptional growth.

**Amr Amin:** okay. Thank you for that. Another question asked about Capex/Sales stood at 24% during the 9M reporting period. Where do you see this ratio normalizing over the next couple of years, please?

**Khaled Khater:** The number is dependent on our growth initiatives but excluding our growth initiatives and new projects. Our CAPEX, our operational CAPEX is a marginal number. it changes from 20 to 30 million Egyptian pounds per year. Talking about the 175 we spent during the 9 months is, as you can see, 92% of the number is allocated to the new Hospital and the Faculty of Arts; this means that it only 8% of the 175 million Egyptian pounds is allocated to operation CAPEX and maintenance CAPEX. So, a large percentage of our CAPEX is always linked to growth initiatives and revenue generating projects.

**Amr Amin:** Okay, thank you for that. Congratulations on your recent inauguration of the University Hospital. Can you please further elaborate on how this should or will contribute to your financials?

**Khaled Khater:** The main use of the University Hospital is to support the academic courses and the delivery of the academic Mission of the Faculty of Medicine and other medical faculty to students. In our plans and business plans, we expect income from the university, because the Hospital is allowed to operate as 70% commercial and 30% educational, but now we're focusing on the academic mission and the training of the students at the medical faculties.

**Amr Amin:** okay, thank you for that. Just a reminder to our listeners that you can tap the raise hand button to have your microphone unmuted, or you can type your question in a Q&A Box. Another question, are you still on track for your Badya expansion pending the presidential decree?

**Mohamed El Rashidi:** The Presidential decree is a matter of weeks, because all the legal and the approvals were taken in the cabinet's approval. On the construction front and the development front, we are ahead in the first phase of the construction's timeline where the contractors will finish at end of February, and we are planning to start the launch campaign for the University in late April of next year to meet the academic year of September 2024/25. That's the status of Badya University.

**Amr Amin:** Thank you for that. Seems we have one more question. Do you expect a change in your sales (i.e., different faculties) that would improve profitability during the 23/24 academic year?

**Khaled Khater:** Yeah, we expect a change in the sales mix because of the new faculties introduced to the University. I'm talking about the faculty of medicine, which is Ramming up and the faculty of physiotherapy. So, we expect an improvement in the sales mix. Also, talking about Badya and the new university we are developing right now, we have a large portion of the capacity will be dedicated to the medical faculties as well, so the weight of the medical faculties and the faculties with high tuition fees will be leading the scene.

**Amr Amin:** Brilliant. Thank you very much. It does not seem like we have any more unanswered questions. Would you like to make any final remarks before we conclude today's call.

**Mohamed El Rashidi:** I just like to thank you everybody for attending the call as mentioned before Taaleem focus on a higher education offering, and the solid and robust institutional operating model of the company, which allows us to extract high economies of scale, is showing strong resilience during this turbulent year, we manage to preserve our margins, enhance growth, and enhance growth for Taaleem. All I can say now is that Taaleem is on a platform to take much higher trajectory or the cager of the past years for the next 3 years, and this all is attributed to the solid management team performance which I would like to thank them for that and thank you to the investors for the confidence in Taaleem's management. Thank you very much.

**Amr Amin:** Thank you to Taaleem Management Services management team. And thank you all for dialing in today to the Taaleem Management Services' third quarter of 2023 results conference call hosted by CI Capital. A recording of this call will be made available shortly. Please get in touch with your contact person at either CI Capital or Taaleem, for access to the recording. Have a nice day, everybody. Goodbye.