

Date: 22<sup>nd</sup> October 2019

التاريخ: 22 أكتوبر 2019

M/S . / Boursa Kuwait Company

المحترمين

السادة/ شركة بورصة الكويت

Greetings,

تحية طيبة وبعد،،

**Subject: Analysts/Investors Conference minutes  
for the Third Quarter of 2019**

**الموضوع: محضر مؤتمر المحللين/المستثمرين للربع الثالث من العام  
2019**

With reference to the aforementioned subject, and to our letter sent to you on 17/10/2019, we attach to you the minutes of the analysts / investors conference on the third quarter of 2019.

بالإشارة إلى الموضوع أعلاه، وإلى كتابنا المرسل لكم بتاريخ 2019/10/17، نرفق لكم محضر مؤتمر المحللين/المستثمرين عن الربع الثالث لعام 2019.

وتفضلوا بقبول فائق الاحترام،،،

Yours Sincerely,

دلال حسن السبتي  
رئيسة مجلس الإدارة

**Dalal Hasan Al Sabti**  
**Chairperson of the Board of Directors**

**Conference Title : Humansoft 3Q19 results conference call (Edited Transcript)**

**Moderator : Nada Amin**

**Date : Thursday, 17 October 2019**

**Conference Time :15:00 (UTC+03:00)**

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**Operator:** Good day, and welcome to the Humansoft Third Quarter 2019 Results Conference Call. Today's conference call is being recorded. And at this time, I would like to turn the conference call over to Nada Amin. Ma'am, please go ahead.

**Nada Amin:** Thank you. Hello everyone. This is Nada Amin from EFG's Consumer and Healthcare team. It's our pleasure today to be hosting Humansoft's 3Q '19 results call. On the line from the company's management we have Mr. Mayank Baxi. We'll begin with a presentation and then we'll open the floor to Q&A. Mr. Baxi, please go ahead.

**Mayank Baxi:** Thank you. Hello everybody. Welcome to the Humansoft Holding Q3 2019 Results Conference Call. Thank you, team, at EFG for facilitating this call. I'm Mayank Baxi, CEO of the company, and I would like to run through the Q3 2019 highlights in brief and then leave the floor open for questions and answers.

At the outset, I would like to mention that any forward-looking statement or views discussed during this call are subject to risks and uncertainties that may cause the actual results to differ. Humansoft does not assume any obligations to update such views or statements, nor make any announcements regarding any revised circumstances.

The total revenue of KD16.98 million in Q3 2019 has resulted into a 6% growth over the same period in the previous year. This is mainly arising from good enrollments for the summer semester. EBITDA of KD10.73 million during Q3 shows a growth of 12.7% over Q3 2018, and the EBITDA margins have increased from 59.4% during Q3 2018 to 63.2% for Q3 2019. And this was due to higher revenue and cost efficiency.

The net profit margins have improved from 49.1% in Q3 2018 to 53.1% in Q3 2019. And the net profit of KD9.02 million is higher by 14.8% compared with the net profit of Q3 2018. Total equity of KD70.64 million has increased by 22.2% over Q3 2018. Total assets at KD129.64 million are higher by 6.7% over Q3 2018.

Deferred income at the end of Q3 2019 is KD25.59 million compared with KD24.99 million in the previous year. Deferred income represents the unearned revenue and the same shall be recognized as revenue upon execution.

Cumulative nine months results have also shown overall improvements compared with the nine months period of 2018. Revenue of KD53.34 million is higher by 6.8%. EBITDA of KD31.3 million is higher by 15.9% and net profit of KD26.1 million is higher by 17.3%. The earnings per share for nine months of 2019 is 215 fils compared with 183 fils during the nine months of 2018.

At the end of Q3 2019, company had net cash of KD14.8 million. It may be noted that the cash collection has a cycle, wherein bulk collections are received at one point and then same has to finance the cash flows of subsequent months. Company has, in past, paid maximum dividends as maybe feasible after considering the monthly cash flow requirements.

At the year end, management would make appropriate recommendations for dividends after studying the cash flow projections. AUM has offered the civil engineering major starting fall of 2019 semester prospective to the new students.

As informed previously, architecture major has been approved and will be offered starting fall of 2020. Our application for approval of petroleum engineering major and the masters program for engineering majors is still under approval process.

Fall 2019 has started in the beginning of September and the total enrolled students at AUM have reached 10,415 and at ACM they are 1,970. Thus, the combined total has reached to 12,385 students. The new students' enrollments at AUM were 2005 and at ACM were 644.

This year ACM had more applicants compared with last year and so also the enrollments at ACM were more compared with last year. Both the institutions, AUM and ACM, continue to focus on quality enhancement and overall development of its students.

Towards this objective, the process of international accreditations was initiated during the past two years. And by the end of August 2019, we are now ABET accredited for all the ACM current offered majors and similarly at AUM computer science, industrial engineering, electrical engineering, mechanical engineering and telecommunications and networking technology majors are now ABET accredited.

ABET is a well recognized accreditation body internationally for engineering programs. ACM business programs are also accredited by ACBSP and AUM applications for the same is in progress. Such international accreditations provide further support to the qualitative aspects of AUM and ACM. And we feel that they shall support sustainability of the operations and enable both AUM and ACM to widen their reach to potential students who were otherwise not considering AUM or ACM as an option.

Along the academic development, both AUM and ACM, give a lot of emphasis on overall development of students, and therefore several learner-centered development initiatives are provided at the campus. AUM students have won, for the third consecutive year, prizes at RobotChallenge 2019 Competition in China during August. This event was in Beijing where 32 countries, 300 institutions and over 3,000 individuals have participated this year.

We are proud to inform also that AUM has become the first institution in Kuwait and Gulf to get full membership of the European Organization for Nuclear Research.

With this, now I open the floor for questions and answers. I request that please introduce yourself with name and the institution you represent when you have any questions. Thank you.

**Operator:** Thank you sir. If you would like ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star one to ask a question.

We'll pause for just a moment to allow everyone the opportunity to signal for questions. Our first question comes from Farouk Miah with Blakeney Management.

**Farouk Miah:** Hi. Thanks very much Mr. Baxi for the presentation. This is Farouk Miah from Blakeney Management. Few questions. Firstly, could you give us update on the civil engineering that you did launch this fall? What was the number of students that signed up? And for a program like this, for civil engineering this year and hopefully architectural next year, what is the per year capacity? So next year probably if I'm running each of these programs, what is the capacity that you'll have?

**Mayank Baxi:** Sure. This year, civil engineering, we have taken about 100 students. And going forward, civil engineering has a potential to reach up to 300 to 350 new enrollments. Similarly, architecture when it is launched in the initial years, it takes a while for us to reach to the similar number of around 300 to 350. And as we see next year, we'll get a more feel about the potential. But I think right now we would assume that around 100 students can be expected when it is launched[?].

**Farouk Miah:** Thanks. Can you – second question is can you give us any update on the process of approval for the petroleum and the masters? Do you expect to get it in the next 12 months, so you can also launch next Fall with architectural or can be a year later. So next year will be architectural launch. The following year, so fall 2021, the petroleum and the masters?

**Mayank Baxi:** See, we have the full year now, still we are pursuing for both petroleum and masters program. And we are hopeful that during the year, we should be able to get the approval which will allow us to launch at the fall of 2020, if everything goes well, because for these majors already there are certain labs or whatever requirements are there as of initial phase are there in place. So we would assume shouldn't be a difficulty.

**Farouk Miah:** Okay. And just final question is also might ask about regarding the pricing schedule. So can you just remind us and clarify that you are eligible from now to apply for the increase but what is the intention internally in terms of submitting your application, and again just a reminder on the process on the timeline of submitting your request for pricing? Thank you.

**Mayank Baxi:** Yes, as per the guidelines of PUC there is a five-year cycle which is completed for AUM. So we are now eligible to apply. Now regarding the timing and the process, etc., we have to submit the application and then it is for the regulators to study and come back and discuss if at all they have questions etc. But as far as we are concerned right now at this point in time, we do not have much information that we can share about our timing etc. for certain strategic reasons. We will come back when we have something to disclose on that front.

**Farouk Miah:** Okay. Thank you very much, Mr. Baxi.

**Operator:** Once again, if you would like to ask a question, please press star one at this time. Again, we are now holding. Again, that is star one if you would like to ask a question. Our next question comes from with LGM Investments.

**Speaker:** Hello. This is [inaudible] LGM Investments. Thank you very much for presentation and congratulation on really, really solid results this quarter. And I have a quick question. I'm surprised to see maybe still manage to lower your cost. Can you elaborate how did you manage to lower them? How did you do that?

**Mayank Baxi:** Yeah, thank you. See, as we mentioned earlier also, we had initiated several measures to study the processes, upgrade our IT, etc. And that enabled us after it was implemented to revisit the requirements of manpowers in some of the areas. And also, another area of cost saving came from the project construction team, which was not required to continue because we have completed most of our construction requirements. So that cost on salaries came down, which you would have seen in the G&A.

Second, another area of improvement was this year you would have noticed in the sales and marketing expenses. As you know now, with the tenure of operation and with the kind of reputation that is built there around in the country, both AUM and ACM are getting well-known and have started to attract good students even from referrals etc. So the spending on the marketing which used to be purely sales promotion and reaching out just through print media or

through television or radio, we could go through now through social media as an option, which is cost effective.

And moreover the phase in which we are getting into is where lot of the students achievements, like for instance the prizes that they win, the placements that happen for the graduates, etc., are now enabling us to do the qualitative marketing unlike in the past where you had to get the prospective students or parents to reach out to you through this other mediums, which are not very much needed now.

So I think collectively when you add up all these, we could come up with good improvements in the cost and which is resulting in the bottom line.

**Speaker:** Okay. That's very clear. Thank you very much. And on the future revenue certainly as much as we can say, your new enrollments are flattish – the number of students is flattish and your deferred revenues are also almost flattish. So should we expect for lower revenue growth in, let's say, in the next quarters?

**Mayank Baxi:** See, if you are looking at the revenue growth, sure, it will fall in line with the students, which is more or less flat this year but little element of mix will be towards the AUM students being more and also the composition of the foundation students are less. So I would say may not be the same level of growth as we have seen last time but still there will be a couple of points 2% to 3% revenue growth possible.

**Speaker:** Okay. Thank you very much.

**Operator:** Thank you. Our next question comes from Meera Reddy with SICO Bank.

**Meera Reddy:** Good evening, Mr. Baxi. This is Meera Reddy from SICO Bank. Congratulations on the results. I had about three questions. The first one is on the acceptance rate. Could you just tell me what the acceptance rate for fall of 2019 was?

**Mayank Baxi:** See, acceptance rate more or less remain in line maybe one or two points lower than last year but it was in the range of approximate 39% to 40% in AUM and ACM.

**Meera Reddy:** Okay. So if assuming that the acceptance rate has been similar, does that mean that the total base, the number of applicants actually applying to AUM and ACM have become lower? Could this be because of Kuwait University maybe?

**Mayank Baxi:** Now let's differentiate the applicants, at ACM have increased this year. And therefore, if you see a little growth in the new enrollments as well versus last year. So ACM has seen a little increase of applicants almost about 400 applicants were more than last year. And in AUM, we had about 200 to 250 applicants lower than last year.

Now whether this could be due to the new KU campus? I don't think that could be the factor because the new campus has not taken any big numbers compared with the previous years. And also, the overall share of AUM in the local scholarships or from the local universities has more or less remained the same. And this year even the foreign scholarship students numbers have not grown.

So what all-in-all it adds up is that maybe this year the segment of AUM, which is the students who would be eligible for applying to the university under the scholarship program maybe lower than the last year. And that again collaborates with the fact that we had seen a little increase in the enrollments and also the applicants at ACM. And also similar trend has been seen in the two-year government program PAAET which has also enrolled about 16,000 students, so When all-in-all if you look at it, we haven't lost any market share or anything, but I have a feeling that it could be because of this reason.

Now in Kuwait unfortunately you don't get complete statistics and authentic statistics in a complete form, so you have to gather information through different news reports, etc. And one of the news report at the June phase where the high school graduating numbers were announced, the numbers this year were about 25,200 high school students graduated from the Arabic public and private schools, whereas last year similarly at that point in time, it was about 25,895.



So again that is an indicator that maybe – of course, it is not a complete answer because there are re examinations and that numbers are not available. But just purely if you compare the results after the high school graduate results are out at the first instance, you have seen an approximate reduction of – or drop of about 600 odd student graduating at the high school. So these are the collective analysis that we could gather from different sources and newspaper reports.

Now – so we feel under that circumstances AUM has achieved 2005 students, which is a good achievement.

**Meera Reddy:** Okay, sure. But with respect to AUM, how sustainable is this 40% acceptance rate?

**Mayank Baxi:** What do you mean sustainable?

**Meera Reddy:** I mean, at what point do you think that you might have to start increasing the number of students that you enroll?

**Mayank Baxi:** See, let's differentiate between the quantitative and qualitative aspects of enrolling students. And as we have been maintaining that for AUM to have a long-term sustainability, it is important that the qualitative aspects are maintained and enhanced and not diffused or degraded. And with this objective, only all these initiatives are being done. And I think in the long-term that will be important sustainable factor and attracting good students and also enabling AUM to reach out to a wider segment of students.

So I would say whatever criterias the academic team set, they are not going to be driven by the target of enrolling students rather they would continue to maintain their standards and moreover with the kind of initiatives of international accreditations, etc., I would assume that that is in the best interest to not compromise on quality.

**Meera Reddy:** Okay, sure. My second question is regarding the growth rate for civil engineering course. You said that the capacity was about 300 to 350 students. Can we expect this by fall 2020 or is it going to be phased and how phased is it going to be?

**Mayank Baxi:** See, I didn't say about capacity. What I said usually these majors have a potential to attract around 300 to 350 students. Capacity-wise we have flexibility there, so there is no gap on that. But usually what we have seen in the past with when we introduced new majors, it takes two to three years to reach that kind of 300 to 350 students. Now this year we reached to about 100 students. We'll have to see next year if not next year, over a year after, we should be targeting to reach around that number.

**Meera Reddy:** Okay, perfect. My last question is regarding CapEx. Do you have any CapEx plans for 2020?

**Mayank Baxi:** As of now, there is no specific CapEx commitment made. As we told already, campus has got capacity and lot of infrastructure constructions are over. So there could be only maintenance CapEx, which we normally would presume to be around 3% of the revenue. Other than that, there is no major commitments of any long-term CapEx done at this point in time.

**Meera Reddy:** Okay, sure. All right. Thank you.

**Mayank Baxi:** Welcome.

**Operator:** Thank you. Once again, if you'd like to ask a question, please press star one at this time. Your next question comes from Fatema Al Doseri with SICO Bank.

**Fatema Al Doseri:** Hi. Thank you for taking my call. I just have a couple of questions. The first one is related to your deferred revenue. Now you've mentioned in the past that deferred revenue growth could be an indicator to future revenue growth. Just looking at 2Q '19, deferred revenue increased by 14% while that translated into only a 6% growth in revenue. Just wanted to understand why was there such a big difference?

**Mayank Baxi:** See, when you are referring to June financials, quarter two, the deferred revenue that you see at the end of June, which you are in context of 14% or 13.8%, refers to the revenue of summer months, July and August, that would be executed this year. So that is consistent there. And what you see in the quarter three is a cumulative of July, August and September.

Now September contribution comes from the new enrollments of fall semester as well and that is a bigger bulk number. So all-in-all, when you collectively compare the quarter-to-quarter, you have two months of summer and one month of fall revenue. And fall, as you see, the student enrollments has more or less remained flat compared with last year. So with the minimal growth there and the July, August summer growth, which is on a lower base, you are seeing an average of 6%.

**Fatema Al Doseri:** Okay, understand. Now in terms of your students under scholarship program, does that represent a change compared to last year?

**Mayank Baxi:** Sorry?

**Fatema Al Doseri:** Hello? The number – your number of students that are under the scholarship program, the percentage of students under scholarship compares to last year. Did that change?

**Mayank Baxi:** No. Percentage-wise, no. Still I would say, we would have almost 92% scholarship students.

**Fatema Al Doseri:** Okay. And are you taking any initiatives to increase the enrollments in ACM because net there's still an outflow given the graduates and the enrollments in ACM, net is lower. So I'm just wondering if there is any initiatives done by the company –

**Mayank Baxi:** Yeah, certainly.

**Fatema Al Doseri:** To increased enrollments

**Mayank Baxi:** Yes, see – correct. For ACM if you look at the past trend, the average of ACM new intake has gradually increased. There was a one year of exception in 2017, where the number was higher than this year or even previous year. But this year also we have about 644 students which is more than the last year, maybe 40 students more but still it is an increase there.

Now in terms of initiatives, there are several initiatives. One is you have seen that we mentioned about the accreditations for the ACM program, which is now even the engineering program,

technology programs are accredited. Business school is accredited. And what we have been working on is attracting students at ACM who would not have been eligible to go for the scholarship program to get into university degree. And therefore you are giving them an option to continue after ACM if they meet the criteria and get into a degree program at AUM.

Now this year we have seen a little higher number of students of ACM graduates qualifying and meeting the criteria. So these are initiatives which in the long-term will allow us to increase the number there but these are slow processes. You cannot just achieve everything in short time because there is a lot to do with the alignment of curriculum, seeing how the students fair when they get into the junior class at AUM, etc.

So this is what we have been doing. And also gradually ACM has also widened their scope of the majors. So more or less now all the majors that are there at AUM are being offered at ACM. So we have also increased the reach of ACM segment through that introduction of new majors.

**Fatema Al Doseri:** Okay. And just in terms of the new students enrollments. So what's happening right now in your university or in Kuwait in general, is that – people are not qualifying for the AUM but are qualifying to the ACM.

**Mayank Baxi:** This could've been the situation this year. See, this year, as I explained earlier in the previous question, this could be the situation. Now in Kuwait, you know there are situations where sometimes after high school some people take break also. So we do not have a complete statistics of all the students who finally qualify after the reseat and how many graduated etc.

So very difficult to say that maybe the complete answer to your same question. But we will get to know as we go forward with more statistics. But we have not seen a big number of drop in the applicants. It was just about 200 students drop in the applicants. So I wouldn't say absolutely that there are was less of AUM segment or anything of that sort.

**Fatema Al Doseri:** Okay. Thank you.

**Operator:** Thank you. Our next question comes from Jonathan Milan with Waha Capital.

**Jonathan Milan:** Hi. Good afternoon and thank you very much for taking the time for the call. Congratulations on very good set of results. Just can you please refresh my memory, what's the current capacity of both campuses? Is it 16,000 students?

**Mayank Baxi:** See, in terms of the land it can go up to approximate 21,000 if we build to the maximum as per the guidelines of the regulator. But when you look at the available buildings right now, we can reach up to anything around 13,000 to 14,000 students because we have used the campus constructed buildings quite lavishly and operationally I think we can accommodate up to around 14,000 students. But going beyond that, we will need to build some classroom and lab buildings.

**Jonathan Milan:** And to go to 20,000 capacity – full capacity of 20,000 that's barely KD10 million, right, not even, I believe?

**Mayank Baxi:** I wouldn't say just KD10 million. Maybe on a safer side if I take it is a 6,000 kind of construction capacity. And our experience so far with building which can accommodate up to 2,000 student capacity takes around KD5.5 million. So I would say at least rather than KD10 million, it can take up to KD16.5 million or near about at today's cost.

**Jonathan Milan:** Okay. Well, perfect. And that's still less than half a year worth of EBITDA. And even though you're adding majors but they're growing but given that –

**Mayank Baxi:** That has to be spread also. I mean, that does not have to happen overnight. It has to be spread over.

**Jonathan Milan:** Of course. My point is that your – the growth has slowed down and that's sort of natural because you have a lot more students graduating at the same time so people who enrolled four years ago, there are more of those. And that the growth has slowed down to flat. And maybe going forward, the number of students is going to grow low single-digit. And you really have any CapEx needs meanwhile you're in a net cash position. What are you going to do with that net cash position? I know you needed for some day-to-day month-to-month transaction but I'm sure you have very – any bank will be more than happy to give you generous credit facilities. Will you go for acquisitions within Kuwait in high schools, K-12 or in Saudi, or are you going to be

buyback shares or are you going to start paying more than 100% dividend payout because you are in a situation where the CapEx needs aren't that high any more, I mean, nearly as high even if the expansion CapEx is nothing. And you're net cash and no longer net debt.

**Mayank Baxi:** Yes. See, you have seen in the past also because of the good cash flow, comfortable cash situation, dividend payout has been high. And going forward, sure, the growth of opportunities inorganically in learning space company will always be looking out and we'll take appropriate decisions if something concrete and favorable target is there. But till that time such opportunities are not materializing, the dividend payout will be the better option because any other option like what you mentioned about share buyback, etc., has long-term implications.

So you can't take any such long-term implication decisions which can restrict you later. So till that time we do not have any other pressured need for cash and subject to the requirement and availability of cash flows for the monthly growth of working capital, we will recommend for maximum dividend.

**Jonathan Milan:** Maximum would be 100% or can you exceed 100%?

**Mayank Baxi:** See, this is something which we will have to study it at the year end when we reach the year end and what is the collection cycle required for the subsequent period and also the monthly cash flows that will be there at that point in time will be more clear. And at the end, it is going to be the decision at the AGM.

**Jonathan Milan:** Okay. And one last thing, will you be willing to add more majors related to other fields other than related to business and engineering because you offer the widest variety of engineering degrees in Kuwait, especially with the recent additions you're adding few more. Would you consider others? I mean, you were already considering there saying would you considering tapping into other segments that are of interest – part of interest for a lot of Kuwaitis and you don't yet offer something completely different like I don't know, law, medicine, arts?

**Mayank Baxi:** See, as far as the health science is concerned, it is part of our – the approved majors – list of approved majors that we already have, and therefore we had contemplated nursing. And for

that we will revisit this study. At this point in time, we would like to first focus and get the engineering majors up and running which is the petroleum, architecture or masters program. And then for sure we will revisit the opportunities in existing in the other majors and then study the same.

**Jonathan Milan:** Okay, perfect. Well, thank you very much.

**Mayank Baxi:** Thank you.

**Operator:** Thank you. As a final reminder, if you'd like to ask a question, please press star one at this time. Again, that is star one if you would like to ask a question. The next question comes from Zohaib Pervez with Al Rayan Investment.

**Zohaib Pervez:** Hello. Thank you, Mr. Baxi. This is Zohaib Pervez from Al Rayan Investment. Could you – I've got two questions. Firstly, could you tell me the number of student that are expected to graduate next year? And secondly, do you have any revenue and net profit guidance for 2020?

**Mayank Baxi:** See, the graduating numbers, of course, it will depend on the study plan on semester to semester basis. But as we see at the beginning of fall, we expect about AUM 1,800 students can graduate and in ACM there could be about 500 students who can graduate. So all-in-all total of 2,300 can graduate.

Coming to your next question, our business is quite predictable. If you have followed the cycle and based on our students and the deferred revenue, etc., you will – and margins are pretty clear also. You should be able to do your own calculation there. We try to refrain from giving speculative statements about the future. So kindly excuse me on that.

**Zohaib Pervez:** Thank you. That's okay. Even though the margins have quite been helped by these reduction and cost over the last two years or so. So in that sense, I guess, the top line is probably very much in tact but the bottom line gets to better – it keeps on going at a faster rate because of the cost efficiencies?

**Mayank Baxi:** See, you have to always keep on striving for improvements and of course that is going to be always there but sure the pace of margin growth can also be compensated by some cost inflations that can come in. So I wouldn't say that kind of same level of margin growth can continue.

We will also be looking at enhancing our operations by uplifting, enriching the programs. So that's where costs can also come up. But I won't see that the margins can keep on growing in the same rate as we have seen in the past. More or less, it should get into the range at which we will see this year a point or a couple of points up or down but not a major fluctuation there.

**Zohaib Pervez:** Thank you.

**Operator:** Thank you. At this time, I am currently showing no further questions in the queue. I would now like to turn it back over to Mr. Baxi for closing remarks.

**Mayank Baxi:** Thank you everybody for attending this Q3 conference call and I take your leave now. Thank you very much EFG and your team.

**Nada Amin:** Thank you very much, Mr. Baxi, for letting us host the call for you. And have a good day everyone.

**Mayank Baxi:** Thank you.