

Date: 11<sup>th</sup> May 2021

التاريخ: 11 مايو 2021

M/S . / Boursa Kuwait Company

المحترمين

السادة/ شركة بورصة الكويت

Greetings,

تحية طيبة وبعد،،

**Subject: Analysts/Investors Conference minutes  
for the first Quarter of 2021**

**الموضوع: محضر مؤتمر المحللين/المستثمرين للربع الأول من العام  
2021**

With reference to the aforementioned subject, and to our letter sent to you on 06/05/2021, kindly find attached the minutes of the analysts / investors conference for the first quarter of 2021.

بالإشارة إلى الموضوع أعلاه، وإلى كتابنا المرسل لكم بتاريخ 2021/05/06، نرفق لكم محضر مؤتمر المحللين/المستثمرين عن الربع الأول لعام 2021.

وتفضلوا بقبول فائق الإحترام،،،

Yours Sincerely,



دلال حسن السبتي

رئيس مجلس الإدارة

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

**Company:** Humansoft Holding Company

**Conference Title:** Humansoft Q1 2021 results conference call (Edited Transcript)

**Date:** Thursday, 6<sup>th</sup> May 2021

**Time:** 1 pm (Kuwait time)

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**Hatem Alaa** Hello everyone, this Hatem Alaa, from EFG Hermes, and welcome to Humansoft's first quarter 2021 results conference call. I'm pleased to have on the call today, from Humansoft, Mr. Anup Dhand, the company's CFO.

We'll start with a quick presentation and then we will open the floor for Q&A. Just as an initial reminder, to ask a question, you can either type in the Q&A chat and I'll read out the question or you can click on the raise hand button on the right-hand side of your screens and I'll unmute your lines. Anup, please go ahead.

**Anup Dhand** Good afternoon, everyone. We are glad to have you today with us and welcome you to the Humansoft Q1 2021 results conference call. I hope you and your loved ones are keeping safe as we continue to navigate through these unpredictable times. I would like to say that Humansoft's thoughts are with everyone who has been affected by the pandemic. Thank you team at EFG for facilitating this call.

I am Anup Dhand, CFO of Humansoft, and I would like to run through the Q1 2021 highlights in brief and then leave the floor open for Q&A. At the outset, I would like to mention that any forward-looking statements 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 obligation to update such views or statements, nor make any announcements regarding any revised circumstances.

Some of the key highlights for Humansoft during Q1 2021 were:

The General Assembly, in its meeting held on 13th April 2021, approved a cash dividend of 400 fils per share.

Dr. Georges took over as CEO, effective 4th April 2021, in addition to his role as President of AUM.

AUM achieved an overall exemplary rating of five stars in QS Stars Rating System, which is considered as one of the most influential and credible ratings for universities globally. AUM has joined an exclusive group of 58 universities in the world and only 7 in the region to be awarded an overall five stars rating.

AUM has been ranked as the most green and sustainable university in Kuwait in the 2020 UI GreenMetric World University rankings.

Now, coming to the financial performance for the Q1 2021.

To begin with, I would like to inform that changes in the academic calendar due to COVID still persisted in Q1 2021. In normal circumstances, Q1 would have comprised of 20% of fall revenue and 40% of spring revenue. However, during Q1 2021, 50% of fall revenue and 25% of spring revenue has been recognised. You can refer to the revenue recognition slide on page 11 in our investor presentation.

Q1 2021 revenue of KD 27.5 million, was higher by 114% in comparison with Q1 2020 revenue of KD 12.8 million, mainly as result of higher student enrolment and changes to the academic calendar due to COVID-19.

Q1 2021 EBITDA of KD 21.0 million was higher by 323% in comparison with Q1 2020 EBITDA of KD 5.0 million.

Q1 2021 net profit of KD 19.3 million was higher by 472% compared with KD 3.4 million for Q1 2020.

Net profit margin for Q1 2021 was 70.2% and EBITDA margin for Q1 2021 was 76.4%.

The earnings per share was 159 fils during Q1 2021 as compared to 28 fils during Q1 2020.

Humansoft had a net cash position of KD 83.0 million as at 31st March 2021.

Total equity was KD 137.2 million as at 31st March 2021 and the annualised return on average equity for the first quarter of 2021 amounted to 60.5%.

Total assets was KD 183.5 million as at 31st March 2021.

The deferred income as on 31st March 2021 was KD 26.6 million compared to KD 24.1 million as of 31st March 2020.

Humansoft's fortress balance sheet provides protection, resilience and enables Humansoft to withstand stress events like COVID-19.

At Humansoft, we continue to strive hard to work towards our key strategies of academic excellence, operating efficiencies and shareholder value.

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

Thank you.

**Hatem Alaa** Thank you. To ask a question, you can either type in the Q&A chat and I'll read it out or click on the raise hand button on the right-hand side of your screens. Again, you can type in the Q&A or click on the raise hand button. The first question is from Belal Sabbah, from Jadwa. Your line is open.

**Belal Sabbah** Hi. This is Belal Sabbah, from Jadwa Investment. Thank you for the call and congratulations on the results. I have two questions, please. First, could you please give us an idea or some guidance on how the academic calendar is going to look like for the remainder of the year? It seems like the first quarter shift in academic calendar was quite a surprise to most participants in the market and I think it would be important to have an idea on how the academic calendar will continue.

Second of all, if you can please give us some feedback on the labour expenses, which seem to have declined by a significant percentage year-over-year. If I understand correctly, this trend has continued from last quarter, as well. Is this a transient or permanent reduction and what is the source of that reduction? Thank you.

**Anup Dhand** Thank you, Belal. The academic calendar for the rest of the year, going forward from here on, current spring semester is getting over in June. So, three months of spring still remains, if we compare from end of first quarter, as we have mentioned in our presentation also. Spring semester usually is of five months, this year it is for four months and then it is followed by two months of summer semester, which is in July and August.

That's, again, tentative. We don't know exactly how the situation will prevail but, as of now, we assume that summer will be July and August. Then, again, depending on the high school exams and the high school results, as of now we assume that the fall semester will be able to start as in a regular pattern, which is September of the year. But, again, considering that the COVID situation is far from over, this is the tentative plan as of now. After spring we hope to be back on our regular academic calendar.

About the cost of operations that you mentioned, that there's a continuous decline, it's mainly due to the efficiencies that we are achieving due to the online classes. Once we go back to on-campus classes we hope to go back to our old numbers. I hope I answered your question. Thank you.

**Belal Sabbah** Yes. Just confirming. You're saying that in the fourth quarter, if everything goes as planned today, you should go back to a regular calendar year?

**Anup Dhand** Yes, a regular calendar year.

**Belal Sabbah** Okay. Thank you.

**Anup Dhand** Thank you.

**Hatem Alaa** We have a question in the chat from Saud Shadid. I would like to ask about the land owned by Humansoft in Sharq area, when this land will be revaluated as Humansoft received a violation from CMA in December 2019.

**Anup Dhand** As per CMA guideline, we did reevaluate it at the end of December 2020. In December 2019 also, it was revaluated and revaluated again before the year-end closing of December 2020. So, it has been evaluated two times and, as a matter of practice, we do it with two independent evaluators and it has been done very recently, before we finalised our 2020 year-end financials. Thank you.

**Hatem Alaa** Thank you. Again, as a reminder, to ask a question, you can either click on the raise hand button on the right-hand side of your screens and I'll unmute your line, or type in the Q&A chat. The next question is from Nishit Lakhotia. Nishit, your line is open.

**Nishit Lakhotia** Thank you for the call. I have two questions. First on the capex plans. Currently, there is absolutely no capex that is being done in your existing premises and given that you are close to your capacity with 13,700-plus students currently, what is the management's approach

on expanding the capacity going forward? Anything on the capex would be helpful. That's my first question.

Second is on the deferred income, it looks very strong, so we would assume a very strong second quarter coming in. You've got a very good spring coming in. Is that correct?

**Anup Dhand** Thank you, Nishit. Answering your second question first. Yes, deferred income is the unrecognised part of the spring semester, which will be recognised over the remaining three months of the spring semester, which eventually will be recognised in the second quarter.

For the capex, as of now, there are no plans for new capex. Our current capacity is sufficient at this stage. No decision for the new capex has been made as of now.

**Nishit Lakhota** Thank you.

**Anup Dhand** Thank you.

**Hatem Alaa** We'll take our next question from Ankur Agarwal, from HSBC. Your line is open.

**Ankur Agarwal** Hi. Thank you for the call. My question is what is the normalised level of margins one should be looking at for Humansoft? When I look at the cost of operations, which probably captures faculty cost, that's down year-on-year. When I look at the SG&A, that's down year-on-year but I think you alluded to the fact that there are some benefits from online education, so that I can understand.

But, why is the cost of operations down year-on-year? Is it because faculty salaries have been adjusted or the number of faculty is now lower than it was last year? That's my first question.

My second question is that given that schools have been online and I think you maintain that high school passing rates were better last year in the context of COVID, if schools continue to be online, which has been the case this year, as well, do we expect similar kind of enrolment numbers in 2021, as well? Those are the two questions.

**Anup Dhand** Thank you, Ankur. About the normalisation of margins, we still treat 2020 as a one-off year. Can you hear me? Hatem, am I audible?

**Hatem Alaa** I can hear you.

**Anup Dhand** I hope Ankur is also able to hear me.

**Ankur Agarwal** I am now. Yes.

**Anup Dhand** Great. About the normalisation of margins, we still treat 2020 as a one-off year and, for that matter, even Q1 is an extension of 2020 because we remain in the online environment. So, going forward, we still feel that 2019 margins and thereabouts are more sustainable.

About the cost of operations coming down as compared to first quarter of 2020, it is also affected from the closing down of the training companies which were in operation in Q1 2020. Those

operations are now closed down, so that has an impact. At the same time, there are operational efficiencies.

Coming to your question of salary adjustments, no such salary adjustment has been made. It's purely on the operational efficiency and due to the closing down of the training business.

Your next question is about schools online and high schools passing rates. Currently, there are no official guidelines on this. We keep referring and following on the local media and the news which gets published. As of now, what we know is around 45,000 students will be appearing for high school exams. Exams are yet to take place. We don't have any idea about the pass percentages as of now.

So, commenting on the enrolment, how it would look in fall later in the year is very difficult to predict but, as of now, what we know is approximately 45,000 students will be appearing for the high school exams and that too, is from the print media. There are no official announcement on this.

**Ankur Agarwal** Thank you, Anup. Another question is on the capacity that you have currently. I understand you can accommodate 18,000 students with the current set of buildings and land, and maybe 21,000 on the land, itself. Is this capacity of 18,000, has it been started in the last three years or it has increased in the last three years? How has it evolved in the last three years and where is it going to go? Are you looking at capex at all in the next three years? If you can talk a bit about the last three years capacity evolution and what's the plan for the next three. Thank you.

**Anup Dhand** Current operational capacity is in the range of 13,500-14,000 students and we are able to manage well with these capacities. During the year we do expect students graduating as well. So, we hope that we will be able to manage with the existing capacity. As I said before, as of now no decisions about the new capex have been made, so we hope to manage with the existing capacity going forward until a decision on the capex is made. Thank you.

**Ankur Agarwal** And, this capacity has been started for the last three years, right, this capacity number, three-four years?

**Anup Dhand** If I could recollect, yes, this capacity has been there in place. We have library and cultural centre and sports centre buildings, all are taken into account when we arrive at the capacity. So, by and large, this capacity number is there in place from the last few years, when we finished with the last building construction.

**Ankur Agarwal** Thank you.

**Anup Dhand** Thank you.

**Hatem Alaa** Thank you. I'll take a question in the chat from Thomas Matthew, from Kamco Invest. He has two questions. The first one is why there is isn't any clarity on the high school examination and university admission?

**Anup Dhand** This is something, which is for the authorities to decide. About the clarity on the high school students to graduate, that's again for the authorities to decide. Right now, there is no decision made on the way in which exams will be held in high schools, whether it will be online or on campus.

So, that's the COVID-related issues, which I think maybe the appropriate authorities are yet to decide on. Once we have that decision and once the exams happen and the results come, then only we will know what are the actual number of high school graduates

**Hatem Alaa** The second question is if high school examinations remain online and the high school pass rates are high, like 2020, would you incur capex or adjust existing capacity?

**Anup Dhand** Again, it's a hypothetical situation, so we will not be speculating on that because we don't know, as of now, how many high school graduates will be there and how many will be passing out. So, yes, as of now, as I said, with our existing capacities we will be able to manage and we will take a decision on capex at an appropriate time.

**Hatem Alaa** There are two questions that are linked from Christine, from Arqaam and from Aly Adel. The questions are could you give us an overview on tuition pricing when it comes to government scholarships and how often is the contract renewed? When should we expect the next repricing, if any? Aly's question is similar, which is do you expect additional discounts in tuition fees for scholarships?

**Anup Dhand** Considering the fact that we are in the middle of the COVID and pandemic situation, we have no plans to apply for any fee increase at this point in time. We will make the application at a suitable time after evaluating all our options, but this might not be the best time to apply for a fee increase in the middle of the COVID and pandemic.

Now, speaking about the tuition fee, we have the existing fee that we have from the sponsored students. Its been there from 2014 in AUM and 2015 in ACM, so there's no change on that. Thank you.

**Hatem Alaa** Thank you. We'll take a question from the line of Fatema Al Doseri, from SICO. Your line is open.

**Fatema Al Doseri** Thanks, Hatem. Hi and thanks for the call. Just following up on the tuition fees. Last year there were talks about reducing the tuition fees and you pointed out that your tuition fees were not revised. Now, just going forward for the school year of 2020 to 2021, did you bill the government for the first semester and did you receive payments on the original fees?

**Anup Dhand** Thank you. Yes, for the first semester, the fall semester, we did raise the invoice and we have received the payment, as well. This is based on our old rates and no change from that.

**Fatema Al Doseri** Okay. With your receivables slightly increasing, are you seeing any delays with payments from the government?

**Anup Dhand** Until now, we haven't seen any delays. We have collected on time. The receivables have mainly increased because there is a change in the spring semester timing. So, spring semester, which usually starts in February, this time it started in March. Plus, we have a higher number of enrolled students. So, that's the reason why the receivables are showing an increase but no delay has been experienced until now in collections.

**Fatema Al Doseri** Again, the surge in students last year happened because of the shift to online examination which resulted in higher grades and, again, acceptance in the scholarship programme.

Are you seeing that the students that have passed or were able to get these high grades and get into your university and get into the scholarship programme actually suffering with their education and we might see an increase in drop-outs?

**Anup Dhand** In spite of their securing higher high school GPAs, we have our own system of admission tests and reviewing their credentials before they're admitted to our university. So, there was no relaxation made on that part. The students that came and joined our university, they were quality students and they are doing good. We don't see any increase in the drop-out rates, as such.

**Fatema Al Doseri** You've mentioned that at the moment you haven't agreed on a capex plan or future growth aspects for the company and you're sitting on a lot of cash. Again, there is the one-off dividend that's coming in that's going to be paid out but still you are sitting on more cash than you would need at the moment.

Do you think that you'd be more comfortable increasing your dividends overall over the next few years because I think you make around 40 million in terms of operating cash flow and you barely have any capex?

**Anup Dhand** The decision about the dividend, of course, will be made at the end of the year after evaluating all the positions and all the cash requirements, as of now, because we are still in the middle of the COVID and pandemic situation, it's far from over. That's the reason we are maintaining a high cash balance, to ensure that the large operations are adequately supported and the repayment plans that we have on our loans are properly catered.

So, dividend, as I mentioned, it will be something for the board to decide at the year-end depending on our cash needs and how the situations prevail at that point of time. It's difficult to comment on the dividend for the coming years at this point of time.

**Fatema Al Doseri** Excluding the COVID situation, do you think that the Kuwait market needs more universities, needs more classes, especially with, again, Kuwait University increased their capacity during the pandemic and was able to increase their capacity during the pandemic? So, aside from the one-off year that we had, do you think there is still room for the market?

**Anup Dhand** Again, it will be difficult for me to comment on that, how much is the requirement of universities and seats in Kuwait but we can speak for our own university and how it is with us. We have done good in the past years and our admission teams are working for recruiting quality students, keeping the right balance between the quality of students and the quantity of students. So, I can speak for AUM our university and ACM our college. It will be difficult to speak about overall Kuwait from my end.

**Fatema Al Doseri** My last question is regarding the margins. You've mentioned that 2019 margins are the sustainable margins. Just looking at your number of students comparing 2021 with 2019, overall you have a higher number of students. Won't there be any efficiencies? Let's exclude the online learning. If we go back to a normal school year, just the fact that you have more students, doesn't that mean that we're going to see more efficiencies and higher margins than 2019?

**Anup Dhand** For sure, there will be efficiencies due to a higher number of enrolled students, but you have to also take into account that there are inflationary tendencies. We are talking



about 2019 margins and there will be inflationary tendencies from the last two to three years. There will be some incremental costs as well.

When I say 2019 margins and thereabouts, I just put that as a ballpark number. There will always been some changes, some plus and minus on that, but, yes, that can be taken as a ballpark number for our references.

**Fatema Al Doseri** Sorry. You've mentioned inflationary changes. Do these inflationary increases pass on to the government fees that they pay?

**Anup Dhand** No. Student fees are fixed in nature. There is no change on that.

**Fatema Al Doseri** Got it. Thank you.

**Anup Dhand** Thank you.

**Hatem Alaa** Thank you. We have a couple of questions from Rajat Bagchi from NBK Capital. The first question is just to understand the trajectory of revenue and EBITDA margins going forward. The current quarterly run rate for revenue is expected to continue, however the EBITDA margin will fall back to pre-2020 trends once you are on campus. Is that a reasonable assumption to understand revenues and EBITDA?

The second question is how much of the recent trend in EBITDA margin is due to the change in student mix in favour of AUM and lower contribution from ACM? Is this trend sustainable or we should expect overall EBITDA margins to go back to pre-2020 levels once you're back on campus, regardless of this change in mix of students?

**Anup Dhand** Thank you. When I say net profit margins and thereabouts at pre-2020 levels, I also mean the EBITDA moving in tandem. So, it's overall picture, overall cost structure will move back more towards 2019.

For the AUM/ACM mix, I don't think that's going to make a huge difference because both university and college are growing. Of course, there is a difference in trajectory of growth for both AUM and ACM but we expect both to grow. As of now, we don't expect the mix to change big time. So, when I say 2019 margins or thereabout should be sustainable, I mean for net profit and EBITDA both and considering the mix. Thank you.

**Hatem Alaa** Thank you. We have question from the line of Ahmed Elnaggar, from FIM. Your line is open.

**Ahmed Elnaggar** Thanks, Hatem. I just have one quick question. Kuwait has been in partial lockdown since March, so do you think this will play out favourably as in do you think the government will maintain a lenient school graduation policy to the one that took place last year, which could end up having a strong enrolments in your university? Thank you.

**Anup Dhand** Thank you, Ahmed. Of course, the partial lockdown is in place but how the government policies would be towards high school graduates or high school exams, whether they would be lenient or they would stricter, it's very difficult for me to comment at this stage of time. But, yes, we will be ready with recruiting the best students, keeping a balance of quality and quantity.

**Ahmed Elnaggar** Thank you.

**Hatem Alaa** A question in the chat from Ayisha Zia, from Ubhar Capital. Do you think that more people enrolled in universities in Kuwait instead of studying abroad due to COVID?

**Anup Dhand** This is from last year's admission numbers, again, what we collected from various media sources. We didn't see much difference in the foreign scholarships which were offered. It was, by and large, the same. Again, now, considering the fact that most of the foreign universities are also online, it probably would not have had much of a difference to our recruitment of students. Thank you.

**Hatem Alaa** Thank you. A few questions from Reema Al-Nemer. The first one is what is the expected percentage or number of graduates for the year 2021 from AUM and ACM? And, is it possible to give us the breakdown of newly enrolled students at AUM by segment or major, like business versus engineering?

**Anup Dhand** Thank you. We do expect, during the academic year, graduation in the range of 2,800-2,900 students in total for the academic year 2020 - 21 and about breakdown by majors, as a policy we have not been disclosing it on the public forums. We only disclose about the total number of enrolled students. Thank you.

**Hatem Alaa** I have question from the line of Waruna, from SICO. Your line is open.

**Waruna Kumarage** Hi. This is Waruna Kumarage, from SICO. Thank you, Anup. I have a few questions starting with just one clarification regarding a statement that you made. Did you mention that your capacity right now is from 13,500-14,000 students? Is that your operating capacity?

**Anup Dhand** Yes, that's the operating capacity for AUM and ACM together.

**Waruna Kumarage** In that case, it seems your enrolled students are 13,700, right in the middle of that range. I'm wondering, in case you need to increase your capacity, how long will it take for you to bring up the necessary buildings? Is that one or two years?

**Anup Dhand** Do you have more questions to it or that's it?

**Waruna Kumarage** On the capacity questions only, please.

**Anup Dhand** Okay. Usually, in the past we have constructed buildings in less than a year's time and considering the fact that we will also have students graduating during the year we will be able to manage with the existing capacity that we have.

Also to be noted is the fact that new students who get enrolled in the first year, they will be enrolled in the foundation programmes, where we have leverage to adjust our capacities. But, as of now, we do expect that we will be able to manage with the existing capacities and a decision about the capex will be made at an appropriate time later.

**Waruna Kumarage** Two more questions, please. I'll ask them together. The first one is the composition of students between AUM and ACM. Now, the ACM percentage-wise has fallen and even

the number-wise from, I think, 2017 and '18 has fallen. What's the reason for the trend and what do you think will it be going forward?

My second question is on the revenue recognition proportion. Since, I think, last year, you recognised 38% of the spring in 2020, second quarter, but based on what you said 75% of this year's spring will be recognised in second quarter. Is that a fair assumption? That's my second question. Thank you.

**Anup Dhand** Coming back to the revenue recognition, revenue recognition is done based on the classes which are held. Last year's spring was pretty scattered because of the online. We had to run it multiple times. But, this year it has been straightforward. It's a four-month semester. Considering the four-month semester, one month is done in March, so we have recognised 25% and the balance of 75% will be recognised in the remaining three months of Q2.

Last spring, due to COVID and due to online teaching, it was done multiple times. You can see that on slide number 11, you see a clear-cut difference, it's not straightforward. It's been recognised multiple times.

**Waruna Kumarage** On the ACM?

**Anup Dhand** Sorry?

**Waruna Kumarage** On the ACM students?

**Anup Dhand** Yes, on the student mix. AUM has grown much in comparison to ACM in the past years because, in AUM, we have introduced more majors. Going forward, as we plan to introduce more majors, we expect the growth to come in ACM as well but, yes, AUM has grown and students in ACM are less in comparison as a percentage of total students. That's because AUM has grown much faster due to the introduction of new majors. We hope to add new majors in ACM also, and that would bring growth in ACM also.

**Waruna Kumarage** Okay, Anup. Thank you.

**Anup Dhand** Thank you.

**Hatem Alaa** A follow question from Rajat Bagchi. Can you discuss the current competitive scenario? What's the expected new supply from new private universities and from the new Kuwait University campus?

**Anup Dhand** Again, whatever we are gathering from the media. I don't see any change in the supply from what it was last year. For our understandings, we assume that it is the same as last year.

**Hatem Alaa** Again, as a reminder, to ask a question you can either type in the Q&A chat or click on the raise hand button. We have a follow-up question from Reema Al-Nemer. How many students are enrolled at the new major you introduced at AUM?

**Anup Dhand** Generally speaking, when a new major is offered, we expect around 100-odd students in the first year, when we introduce a new major and then it get ramped-up, so that's the

number which we achieved for architectural engineering when we offered it first time in 2020. Thank you.

**Hatem Alaa** Thank you. There appears to be no more questions at this stage.

**Anup Dhand** Thank you. Thank you, Hatem. We can wrap up the call now. Thanks, everyone, for being on the call.

**Hatem Alaa** Thank you very much, Anup, for your time and thank you, everyone, for participating. Have a good rest of the day. Thank you very much.

**Anup Dhand** Thank you.