

Date: 1 March 2023

التاريخ: 1 مارس 2023

M/S . / Boursa Kuwait

المحترمين

السادة / شركة بورصة الكويت

Greetings,

تحية طيبة وبعد،،

**Subject: Analyst/Investor Conference minutes for
the financial year ending 31/12/2022**

**الموضوع: محضر مؤتمر المحللين/المستثمرين للسنة المنتهية
2022/12/31**

With reference to the aforementioned subject, and to our letter sent to you on 23 February 2023, please find enclosed the minutes of the analyst / investor conference for the financial year ending 31/12/2022.

بالإشارة إلى الموضوع أعلاه، وإلى كتابنا المرسل لكم بتاريخ 23 فبراير 2023، نرفق لكم محضر مؤتمر المحللين/المستثمرين عن السنة المنتهية 2022/12/31.

وتفضلوا بقبول فائق الاحترام،،،

Yours Sincerely,



دلال حسن السبتي

رئيس مجلس الإدارة

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

MANR

Company: Humansoft Holding Company
Conference Title: Humansoft FY 2022 results conference call (Edited Transcript)
Date: Thursday, 23 February 2023
Time: 2 pm (Kuwait time)

Hatem Alaa Hello, everyone. This is Hatem Alaa, from EFG Hermes, and welcome to Humansoft's Full Year 2022 results call. I'm pleased to have on the call today from Humansoft, Mayank Baxi, Board Member, and Anup Dhand, CFO. We'll start by some comments from management and then we'll open the floor for Q&A. As an initial reminder, to ask a question you can either type it in the Q&A chatbox or you can click on the Raise Hand button. Gentlemen, please go ahead.

Mayank Baxi Thank you, Hatem. Hello, everybody. Welcome to Humansoft FY 2022 results conference call. I hope all of you and your loved ones are keeping safe. Thank you team at EFG for facilitating this call. I am Mayank Baxi, Board Member at Humansoft. Along with our CFO, Mr Anup Dhand, together we would like to briefly mention some of the key highlights of Q4 2022 and then run through the FY 2022 financial highlights, and at the end we will leave the floor open for questions and answers.

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.

For the year 2022, the board of directors have approved and recommend cash dividends of 400 fils per share and a bonus share of 5%, that is five bonus shares

for every 100 shares. This is subject to approval of the shareholders and the regulatory procedures.

Humansoft's growth strategy is founded on two main pillars:

Protecting and preserving our existing academic achievements and leadership in the market by enhancing qualitatively on all fronts, and

cautiously and carefully grow organically by way of introducing new majors from time to time, which is based on deep research and future requirements of industry and, at the same time, enhancing overall profitability with well-managed growth plans.

These are very well demonstrated by the consistent growth in profitability over the past years.

For example, during the past seven years, since 2016, the net profit of KD 24.2 million has more than doubled and reached KD 50.7 million in the year 2022.

AUM has been ranked as number one university in Kuwait, second year in a row, by both Times Higher Education and QS rankings.

AUM has entered into several international collaborations with reputed global institutions such as Purdue University, University of California Berkeley's AMENA Center for Entrepreneurship and Development, Babson College for the management studies, and HEC Montreal for facilitating a dual degree for eligible students, and as well as obtaining all the international accreditations from ABET and AACSB.

Coming to some of the non-financial key highlights and achievements during Q4 of 2022.

As said, for the second year in a row Arab University Rankings of 2022 by Times Higher Education ranked AUM as number one in Kuwait, and the ranking has advanced to 18 in the Arab countries.

For the third year in succession, AUM has been ranked as most sustainable and green university in Kuwait. In UI GreenMetric World University Rankings in 2022, AUM advanced 31 places to number 237 worldwide and made it to the top five sustainable and green universities in the Gulf region and number 16 in the Arab countries.

AUM hosted the Times Higher Education MENA Universities Summit 2022 under the theme Transforming Learning for a Sustainable Future.

AUM and ACM sports teams participated in the Universities' Athletics Association in Kuwait league. The AUM male and female basketball teams and male football team were crowned champions.

AUM livestreamed the games of the FIFA World Cup on the campus.

All these initiatives and achievement enable AUM and ACM to remain as the institution of first choice and, at the same time, enable them to be robust to withstand challenges that arise in this journey.

Now, I would like to invite Mr Anup Dhand, CFO of Humansoft, to give a brief about the FY 2022 financial highlights. Thank you.

Anup Dhand

Thank you, Mr Baxi, and a good afternoon to all the attendees. I am Anup Dhand, CFO of Humansoft, and I would like to present the financial highlights of FY 2022.

To begin with, we would like to inform that because of disruptions due to COVID-19 and the changes in the academic calendar in 2021, revenue and profitability of FY 2021 and FY 2022 are not comparable.

During Q4 2022, 60% of the fall revenue was recognised, whereas during Q4 2021 recognition was for 75% of the fall revenue.

FY 2022 revenue of KD 84.3 million was lower by 12% in comparison with FY 2021 revenue of KD 95.9 million, mainly because of disruptions due to COVID-19 in 2021 and the changes to the academic calendar in FY 2021.

For more details, you can also refer to the revenue recognition slide on page 19 in our investor presentation.

FY 2022 EBITDA of KD 55.1 million was lower by 20% in comparison with FY 2021 EBITDA of KD 69.1 million.

FY 2022 net profit of KD 50.7 million was lower by 19% compared with KD 62.6 million for FY 2021.

Net profit margin for FY 2022 was 60% and EBITDA margin for FY 2022 was 65%.

The earnings per share was 417 fils during FY 2022 as compared to 514 fils during FY 2021.

Humansoft had a net cash position of KD 78.1 million as at 31 December 2022.

Total equity was KD 133.7 million as at 31st December 2022 and the annualised return on average equity for FY 2022 amounted to 38%.

Total assets was KD 155.6 million as at 31 December 2022 and the annualised return on average assets for FY 2022 amounted to 32%.

Humansoft's fortress balance sheet, high return on average assets and high return on average equity provides protection, resilience and enables Humansoft to withstand stress events like COVID-19.

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

Thank you. Over to you, Hatem.

Hatem Alaa Thank you, gentlemen. To ask a question, you can either type it in the Q&A chatbox or you can click on the raise hand button and I'll unmute your lines. Again, to ask a question you can either type it in the Q&A chatbox or you can click on the raise hand button. We'll take the first question from Ankur Agarwal, from HSBC. Your line is open.

Ankur Agarwal Thanks, Hatem. Thanks a lot for the excellent presentation and congratulations on a strong set of numbers. A couple of questions. Firstly, how should we think about student count growth? Obviously, there are a certain number of students who are going to graduate, so you need at least that many students to join to keep the net number high but it does seem that in the private university enrolment space your market share from very high levels has come down a bit. So, how should we think about the outlook for the net student adds for the next three to five years is the first question? And the second question is capital allocation. Obviously, very high dividend, 95%-plus dividend payout. And if you look at the net cash balance sheet or the net cash you have at the end of 2022, you can support a similar level of dividend next year as well. So, how should we think about your plans to allocate capital? Is this the new sustainable level of dividend or do you have plans around capex or potential for

entry into, let's say, primary education which you have alluded to? I think these are the two from my side. Thank you.

Mayank Baxi Regarding market share, we should look at it from two perspectives. One, the overall size of the market also is expanding in the sense that the total high school graduate number has also been growing. As far as AUM and ACM are concerned, we are trying to ensure that we enlarge our offerings by introducing new majors and, at the same time, retaining our leadership position, so that we still remain the first choice. Going forward also, as I mentioned in our opening remarks, our growth strategy will revolve around these two pillars and we are confident that with these measures, and with the kind of reputation that is established now over more than 14 years of operations, we should be in a position to continue with our enrolment numbers as we have seen the past.

This year, the dividend payout has been almost close to 100%. This is because we have reviewed our cash position, we have reviewed our requirements for working capital in the forthcoming year. We feel that we could sustain this during the year. Now, going forward, we'll have to wait and examine how things shape up in the coming year and, as mentioned earlier, we will try to maintain at least a 70% payout but, as of now, that concept and that mindset remains. Going forward, we see how things progress in terms of the requirements for various other applications in the company and then take a call accordingly. We have just begun 2023, so we will need to wait for a while to come up with future prospects for sustainability of dividends.

Ankur Agarwal Many thanks, Mr Mayank and Mr Anup. Thank you.

Hatem Alaa We will take the next question from the line of Belal Sabbah from Jadwa Investments. Your line is open.

Belal Hi. Thank you for the call. I have a few questions please. First of all, with regards to pricing, how should we think about this since it's been several years now without increasing your prices and given the overall inflation environment? Under what circumstance would you, as a management, start to seriously consider proposing a price increase? So, that's the first question. And then the second question is with regards to your growth plans and your capex. Could you update us, please, on the timeline for the new majors and the capacity expansion that you have I think scheduled for this year? And also is growing your capacity within existing majors also a priority? Like you mentioned, the market is growing and we hear you mention adding new majors but what about existing majors and the opportunity to just add seats there? And, finally, if you could give us an update on whether you're still considering the K-12 segment and if you want to expand in that market segment. Thank you.

Mayank Baxi Thank you. Regarding fee increase, as we have mentioned earlier as well, we have completed the five-year tenure and cycle to be eligible to apply for a fee increase. Now, as you know, the past two-three years have been impacted by COVID and quite disruptive on all fronts and, as a result of that, even the financials have been quite fluctuating in terms of the revenue recognition cycle. So, things need to settle down and, in any case, at this point of time with such good results and high margins, I think we will wait for a while. As of now, we have no specific plans to apply for fees increase. In terms of the growth plans, as we have indicated earlier, the School of Health Sciences will be starting in the fall of 2023 and two new major are being planned there, nutrition and nursing.

Hatem Alaa Mr Baxi. Apologies, but if you can just speak a bit closer because your voice is coming and going.

Mayank Baxi Sure.

Hatem Alaa Thanks.

Mayank Baxi So, as far as the new majors are concerned, in the fall of 2023 we have planned to start the School of Health Sciences and, in that, nutrition and nursing will be introduced. We have mentioned to you that already a lot of work on the AI and Smartverse was started and it's in line with our strategy to enlarge our offering and reach out to a wider spectrum of students. This aspect of improving the quality, maintaining the quality and maintaining the leadership position will continue and that will enable us to make sure that we try to reach out through various means to the students who graduate from the high school.

Regarding, why not enlarge the offerings in the existing majors? As I spelled out in my opening remarks, we try to study the market requirements in the industry and accordingly plan the expansion and enlargement of majors amid our own existing majors that we are already offering and new majors. And, as and when there are new developments taking place in that, we'll definitely come back to you. As of now, for K-12 we don't have anything specific to share with you and there is no specific timeline that we have on that. We will definitely update as per the disclosure requirements as and when we have more information or anything to disclose at that point of time.

On the capex front, we have said earlier that as we go forward, the School of Health Sciences will need to have one additional building initially based on our needs and requirements and, as you all know, that the first year of the Health Sciences students will mostly be the foundation year, so we have time to plan the construction and take it forward accordingly. Thank you.

Hatem Alaa We'll take a few questions from the chat. A question from Faisal Amiri. What is the effect of new universities opening in Kuwait like Shadadiya and Abdullah Al-Salem University on the new applicants expected for AUM?

Mayank Baxi When we look at the Kuwait market, definitely new universities have been announced but going back, when you look at our university, when we started in 2008 and '09, which is almost 14 years back, at that time also the Kuwait University was in operation and gradually AUM has built up its reputation and, as a result of that, has been able to attract good quality students who otherwise were eligible to enrol in the available public universities or elsewhere. That said, we will need to make sure and ensure that qualitatively we remain always ahead of the competition and as I mentioned in the opening remarks that we will continue on all fronts of quality development and that aspect will enable us to ensure and sustain the continuity in the market.

Hatem Alaa Thank you. Next question in the chat is from Thomas Matthew. He has two questions. The first one is there is a lot of news flow around government land leases and escalations. Can you give us an update on the land lease terms for the university and the guidance going forward and can you give us an update on how the nursing and nutrition programme preparation is shaping up?

Mayank Baxi Governmental land for AUM and ACM, our revision had taken place last about four years back and, as of now, there is no specific intimation on the increase in the lease rentals. We have been paying our rentals regularly and we, as of now, have no indication about any immediate increase. As far as the nutrition and nursing majors are concerned the preparations are in progress and, as we speak, we are moving on track.

Hatem Alaa We'll take the next question from the line of Reem Al-Barri. Reem, your line is open.

Reem Al-Barri Hi. I'm Reem Al-Barri, from SICO, and I just had a couple of questions. First of all, I wanted to know if you would be able to give us any insight into your expansion plans, whether you're focusing only on a new School for Health Sciences or if you're expanding in other aspects. I also wanted to know how much capacity increase you're targeting and what is the expected capex for this project .

Mayank Baxi As I mentioned to you in my opening remarks, the offerings and introduction of majors is a continuous process. As of now, these two majors are planned to be introduced later in 2023. Going forward, we'll keep studying the market and the requirements and update you. There is no restriction of not studying or introducing new majors but, as of now, these are the two majors that we will be going ahead with. In terms of the capacity, our current operational capacity, takes care of close to 14,000 students and going forward, as we see the requirements, another building will be planned.

Our overall infrastructural requirements of non-classroom or non-lab buildings we are already covered. We have already spent huge capex during the previous years where our library, our sports centre, our cultural centre, our administrative buildings were constructed. These are all for the total capacity that will take care for a long time. What we will need is just adding some classroom or lab facilities, which we will take up as and when they are required. There is no rush on that. And, as you know, the first year for the most students for Health Sciences will be EPP, that is the foundation programme, so we'll take up the construction as and when the need arises. Our master plan is in place and with our experience in the past in construction it should not be difficult for us.

Reem Al-Barri Thank you. I just had one other question about the dividend policy. Can we expect it to be maintained at similar levels going forward? And I also wanted to know why not keep Treasury shares or stock splits?

Mayank Baxi We have tried to maintain a dividend payout of 70% in the past. This year, we felt that we have a good cash position and cash flow is good and after reflecting on the requirements of working capital the Board were able to come to this recommendation. As of now, going forward, our dividend payout will be 70% as we have spelled out earlier. Treasury shares. As you know, we have the approval for Treasury shares, and Treasury shares we do not buy and sell only for the purpose of prices or anything of that sort. We will study it as and when there is a requirement. As of now, it does not justify to block the cash there. That's why we had a high payout of dividend.

Reem Al-Barri Thank you.

Hatem Alaa Thank you. We'll take the next question from the line of Ahmed Saharty. Your line is open.

Ahmed Saharty Hello, gentlemen. How are you? I have a few questions. My first one is regarding the margins. Obviously, you guys recorded an EBITDA margin of 65% this year, which is still relatively higher than the historical margins pre-COVID and disruptions of revenue. So, I'm just a bit curious on what is the normalised rate, assuming that you're also operating at a much higher capacity and there should be some operational leverage. So, should we expect you to revert back to the 2019 levels, which is around 58 or should you come down now that costs will ramp up and you can clearly see that in Q4? Expect somewhere in the middle. Just some guidance there. That's my first question.

My second question is on the non-educational revenue. Obviously, I think it's the IT business and this business pre-COVID represented about 4% of sales, almost KD 3.0 million, and that has come down significantly ever since and never picked up. So, should we just assume that going forward this is the normal run rate or should we expect a pick up there? And, then, just last question is the number of teachers as of today and the number graduations. Thank you and congrats on the results.

Mayank Baxi Current year 2022 results, EBITDA margins are at 65%. Now, you have to understand that 2022 was still a year where first quarter was a hybrid mode of delivery but actually the margins and the cost structures are not comparable as the full operation was not there in the normal circumstances. Going forward, as we said earlier, it should gravitate towards the 2019 levels, given the fact that there are some efficiencies that have taken place on account of higher volumes and due to our process improvements, but part of that also gets compensated because of the inflation and cost increases. We'll try on our part to ensure that we maintain that level and improve upon it. Improvement is always an ongoing process and we'll continue to strive hard to look at areas wherever efficiencies can be improved further.

The non-education revenue actually, in referring to the training subsidiaries, these subsidiaries were closed down due to COVID and the circumstances that emanated after that and you're right about three million-odd revenue was contributed from this source and that is no more there now. Even in 2022 the revenue that you see is totally from the higher education sector. We don't see an impact coming out of this reduction in the revenue source because if you look at our past performance, this three million revenue had not contributed much to the bottom line. So, as a matter of fact, you will see a little improvement in the margin also because of this factor.

Our teacher to student ratio is hovering around 25-26 and, as of now, the numbers for the graduates will not be very clear because the semester is ongoing and we will come to know as and when we progress on the semesters but, more or less, from the past enrolments we would assume around 3,000 students to graduate.

Hatem Alaa Thank you. I'll take a few questions from the chat. What is the total number of intake, student intake for the new academic year and the total number of graduates? I think you answered the latter part.

Mayank Baxi You are referring to intake in the last year?

Hatem Alaa Yes. I think the question is on the academic year we're in now, which started in September.

Mayank Baxi I think we had announced it in the last quarter but we were around 3,300 students and we had graduated also around 3,000 students, and the remaining would be the students who would have either dropped out or who would have deferred the semester.

Hatem Alaa The other part of the question is what was the board meeting today about? And regarding the rent, is the entire campus land rented and is the rent paid to KPAI or the Ministry of Higher Education?

Mayank Baxi Today's board meeting, as was mentioned in the agenda, in Kuwait the Commercial Law is updated and we need to make sure that our articles also fall in line with the updated Commercial Law, and that is being discussed and will be circulating the results out of that and also because the articles amendment has to go back to the general assembly, the agenda for that will be circulated in due course. Also, the announcement of the bonus shares will require amendment to the articles because capital has to increase and that also will be part of that amendment. In Kuwait, the educational institutions are on

government lease rents. Both AUM and ACM are currently occupying about 261,000 square metres of land in total and this rent is being paid to the Ministry of Finance.

Hatem Alaa Thank you. We'll take the next question from the line of Syed Ali. Your line is open.

Syed Ali Hi, gentlemen. Thank you for the call. Just a question. I understand when we look at the 2021 that is incomparable. I do understand but this is something that you've actually reached in the past. So, maybe my question is by when can we expect revenue to be close 96 million as we've seen in 2021 and, let's say, earnings to exceed 63 million? By when do you think that would happen moving forward?

Mayank Baxi It's very difficult to make such projections but increase in revenue in 2021, as you have seen in slide number 19, was the result of a lot of disruptions and if you have to realistically look at our number that we have achieved, you have to take the average of 2020 and 2021 to come to a realistic annual number that we would have reached because the academic calendar was shifted and, as a result of that, there was a shift in the revenue recognition, which has contributed to that big jump in the revenue that you saw in '21. So, the realistic way to look at it is that 2020 and 2021 averages is what was the average for an annualised basis for a year. And when you look at 2019, we have been growing and our focus will be to ensure that we grow both qualitatively and quantitatively and it is very important that qualitative growth is maintained and it is long-term and sustainable. So, our focus will not always be remaining only on growing the top line. As you have seen, a 11% growth in the students' revenue had resulted in almost the net profit CAGR growth of 29% in past ten years.

Syed Ali I guess my question was more towards how much further normalisation downwards would we see before we see a pick up. When I compare revenue recognition numbers versus 2019, 2022 seems fairly close to 2019 revenue recognition numbers and figures.

Mayank Baxi 2022 onwards our calendar is now normal and, as we move forward, more or less the execution will take place in the similar pattern that was coming in '19. So, going forward now, the growth will come from introducing new majors and adding to capacities which is, as I said, will be always looked at from balancing qualitative growth and quantitative growth. We do not make or share the projections as a policy.

Syed Ali Yes, I do understand. What I'm trying to triangulate around is the new sections that you're introducing, nutrition and nursing, as you talked about. I think you also mentioned artificial intelligence, a design centre along those lines. I'm just trying to get a quantitative figure as to what is the capacity, if not what you're guiding for, at least what sort of numbers are we actually looking at within this in terms of enrolment capacity that today, if I'm a student, if I'm enrolling, trying to enrol for one of these nutrition and nursing courses, what is that capacity that I'm looking at, to understand, to put a figure on that?

Mayank Baxi Yes. I get you now. Of course, what kind of enrolments will happen in future is something we'll wait for but our experience has been that in the past, whenever we have introduced new majors, these majors initially we get to enrol about 50-100 new students per year. And because of the five-year graduation cycle in AUM, they keep on accumulating. On a stabilised and on a normalised basis we aim to achieve close to 200-250 new students per major and because these students will continue for five years before they graduate, it will enable us to build and accumulate those students.

Syed Ali Perfect. So, this is per major which is, right now, we're looking at nutrition and nursing. There's nothing else that you've introduced officially, as far as I understand.

Mayank Baxi As of now, these are the two majors that are announced to be offered.

Syed Ali Perfect. Thank you, Mayank. Thank you for the talk.

Mayank Baxi Thank you.

Hatem Alaa Questions from the chat, from Ahmad Al-Awadhi. What is the target capacity of the university if we assume the entire campus is fully developed? And what is your plan regarding the land in Sharq?

Mayank Baxi At AUM and ACM campus, together we have 261,000 square metres of land. When built to the maximum based on the guidelines and the rules and procedures that we adopted we can go up to 21,000 students in this campus. As far as your question regarding the land in Magwa. As of now, that land is kept for our future requirements. One of the concept idea was earlier to have the training business there but since the training business that we were offering from the rental premises is now closed, we'll study it and take an appropriate call.

Hatem Alaa We'll take a question from the line of Ahmad Naggar. Your line is open.

Ahmad Naggar Thanks a lot for the call. I'm Ahmed Naggar from FIM Partners. Back to the graduates number which has spiked this year and offset the 60% growth in new enrolments. If I'm not mistaken this is the first time to see the number of graduates exceeding new enrolments. My question is the number of graduates this year, was it all about graduates or students moving to other

universities? In fact, I'm a bit confused because it usually takes four years for the new students to graduate and, if I'm not mistaken, the spike happened in 2020, so we should see these students graduating in 2024 or 2025. So, I would really appreciate if you clarify this point. Thanks.

Mayank Baxi First of all, let me correct. Our new intake was around 3,300 and graduation was around 3,000. Now, when you look at the graduation cycle, normally at AUM a student is for five years and ACM for three years, assuming that almost all of the students are going through one year of foundation when they come and enrol with us. So, that's the cycle and pattern that will be followed. Now, this spike in the graduation is coming out of one of the factors, that the last two years have been COVID-impacted years and since most of the students had no opportunity to travel and even the classes were conducted on an online or on a hybrid mode of delivery. So, the students were able to make changes in their study plans. Also during a normal semester there are a lot of on campus extra activities and a lot of other facilities which can draw out the time available from the students. So, that is one of the factors that would be there for this spike. Otherwise, graduation cycle is following a normal pattern and it has to be looked at from the average of AUM and ACM new enrolments.

Ahmad Naggar I just would like to follow-up. You mentioned that the new enrolments is higher than the graduates, right?

Mayank Baxi Yes.

Ahmed Naggar But I think the total number of students is down year-on-year.

Mayank Baxi I think you missed out when I said in the earlier part that this is due to the drop-outs. No student is going and attending other universities

but there could be drop-outs. There could be students, for various reasons they can drop-out, they can defer if they have not been able to fulfil the academic requirements, then they cannot enrol in the subsequent semester.

Ahmad Naggar Thank you.

Hatem Alaa Last question in the chat. A follow-up on the rent. How much do you pay in annual rent as the lease liability payment looks too low on the 156K KD? And a question on the bonus share. Why didn't you go for a higher bonus share as 5% won't be enough to lower the price for increasing liquidity?

Mayank Baxi As far as the rent is concerned, if you will look at the financials in the note there is a table which will show the lease liabilities over the period of the remaining part of the rental. So, I think that should be clear from there. The remaining lease liability will be around 705,000 at the end of the 2022. This is up to the period of lease contract and then the renewals will come. Now coming to the question of bonus shares. If you look, overall, at the cash component of the dividend is 400 fils and right now the board felt that there is no need for immediate increase of capital by adding more bonus shares. We'll study that as and when the time comes.

Hatem Alaa Thank you very much. There are no more questions at this point. I will hand over to you if you have any concluding remarks.

Mayank Baxi Thank you very much for the participation and we look forward for such participation in future as well. Thank you, Hatem, and your team, once again.

Hatem Alaa Thank you, gentlemen, and thank you everyone for participating in this conference call. Thank you.