

ITQAN
CAPITAL



Opportunities in K-12 Education in MENA

ITQAN Capital

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Itqan Capital



- Itqan Capital is a Saudi Arabia based investment company licensed by the Capital Market Authority. Itqan aspires to be the Kingdom's pre-eminent provider of investment offerings to HNWs, Family Offices, and Institutional Investors
- Itqan Capital is a member of Al Baraka Banking Group, an international Islamic bank headquartered in the Kingdom of Bahrain with presence in 14 countries, 400 branches
- Supported by robust and centralized Investment Research & Business Development capabilities, Itqan's core service is Asset Management.

As an Islamic Asset Manager, our investment philosophy is based on three principals:

1. We believe that investments generating a recurring and sustainable income yield are the most important source of long-term wealth, backed by the potential for capital appreciation.
2. We believe that identification of and adherence to an asset allocation practice is the key to effective investment policy.
3. We seek opportunities aligned with Shariah principles, with the potential to deliver strong financial returns as well as societal benefits.

K-12 Education Market Outline

Market Size

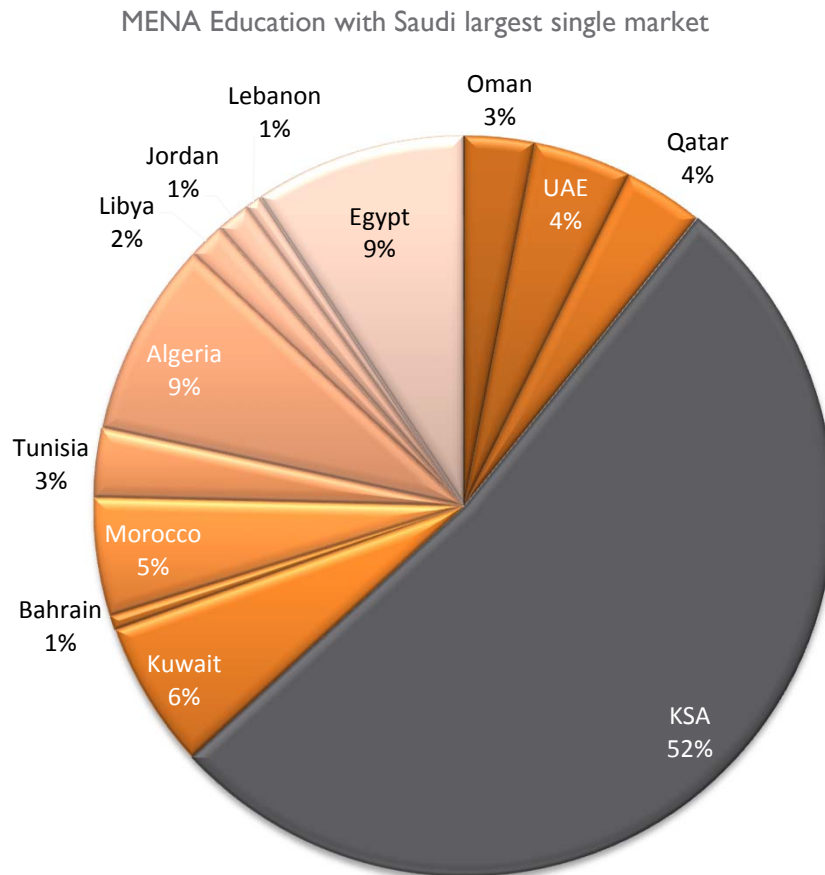
Key Drivers

Obstacles / Challenges

Market Opportunities

Key Investment
Considerations

A USD 100 Billion Investment Opportunity

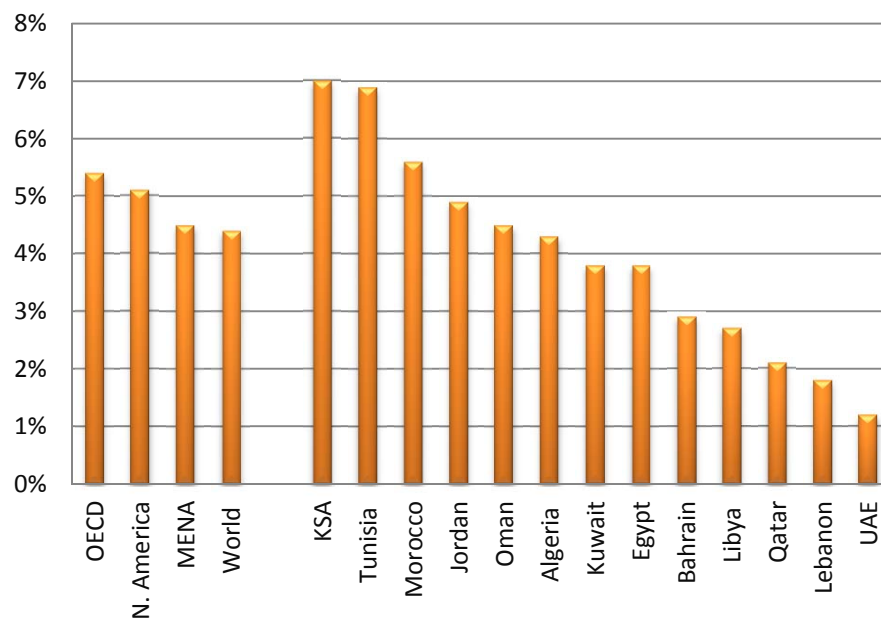


GDP of MENA Region - Latest	Public Expenditure as a % of GDP	Spending on Education
USD 2.3 trillion	4.5%	US\$ 105 billion

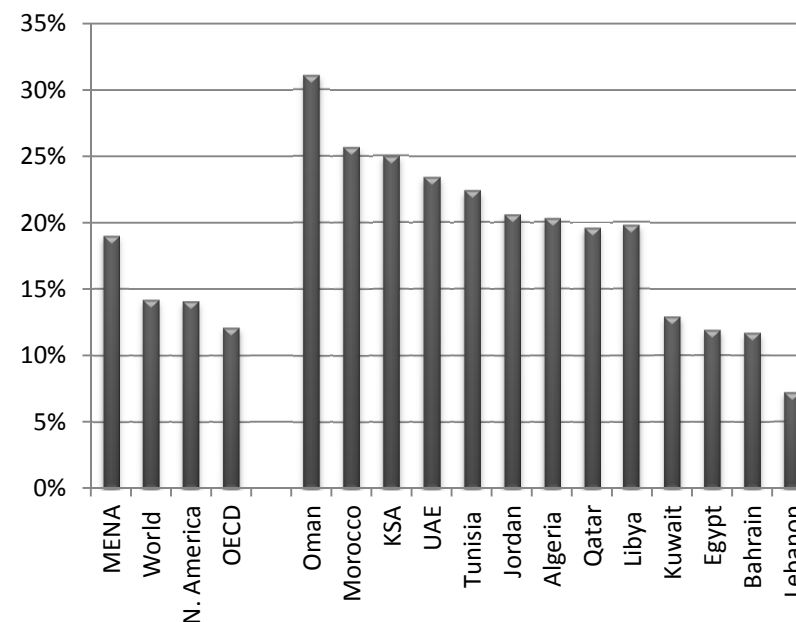
- Total public spending on education, as a percentage of GDP, across the MENA region is increasing to 4.5 (world average 4.4%) thanks to Saudi aggressive budget spending of US\$ 55 billion in 2013
- Number of students attending K-12 schools grew to 50 million pupil in 2013 fuelled by population growth and high enrollment rates during in primary years.
- Total number of schools expect to increase at a CAGR of 1.6% to match increasing number of students
- Annual average spending per pupil increased to US\$ 1857 with Qatar the highest and Egypt the lowest.
- Demand for international and private schools increased in recent years driven by affordability and aspiration of quality

Education represents 20% of MENA Budgets

Public Spending on Education as a % of GDP



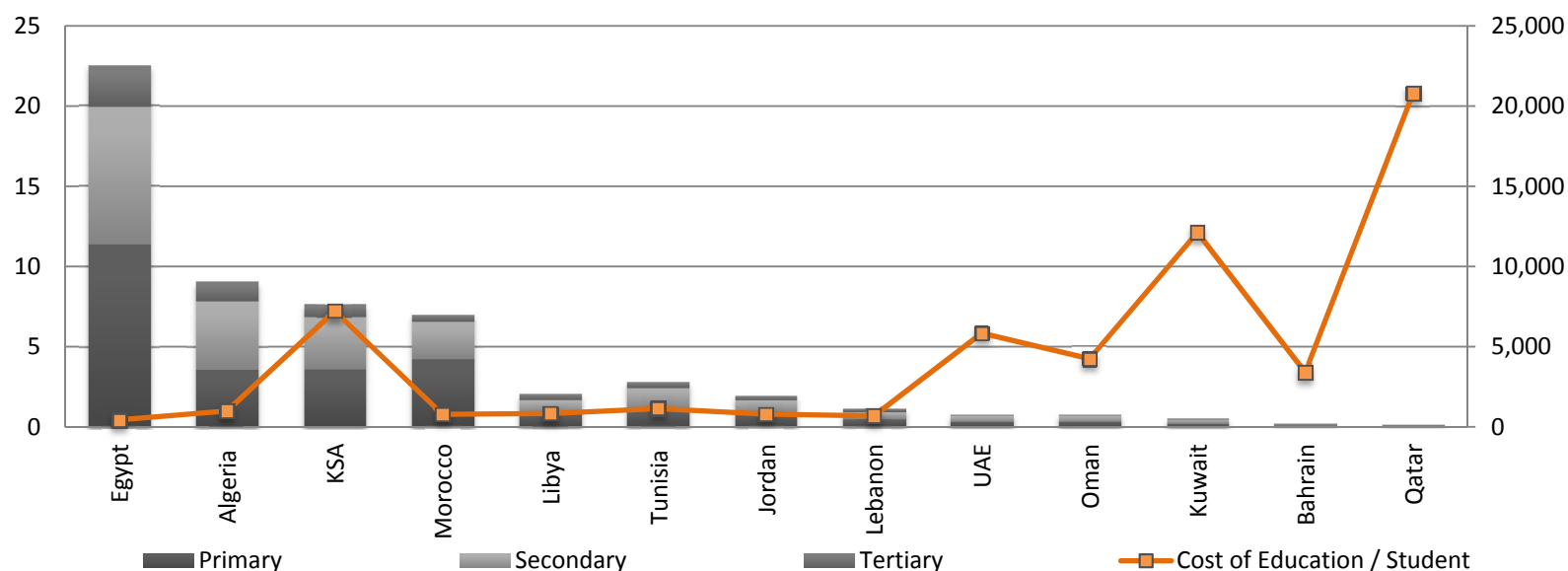
Government Spending on Education as a % of total Budget



- To create jobs and increase employability, Government spending on education, as a percentage of total government expenditure, across the MENA region increased from 12.7% in 20.0% (world average 14.0%)
- Saudi is largest K-12 market with a budget of US\$ 55 billion in 2013 (compared with US\$ 37 billion in 2010)
- Saudi, Tunisia, Morocco spend more – as a % of GDP – than N.America and OECD countries

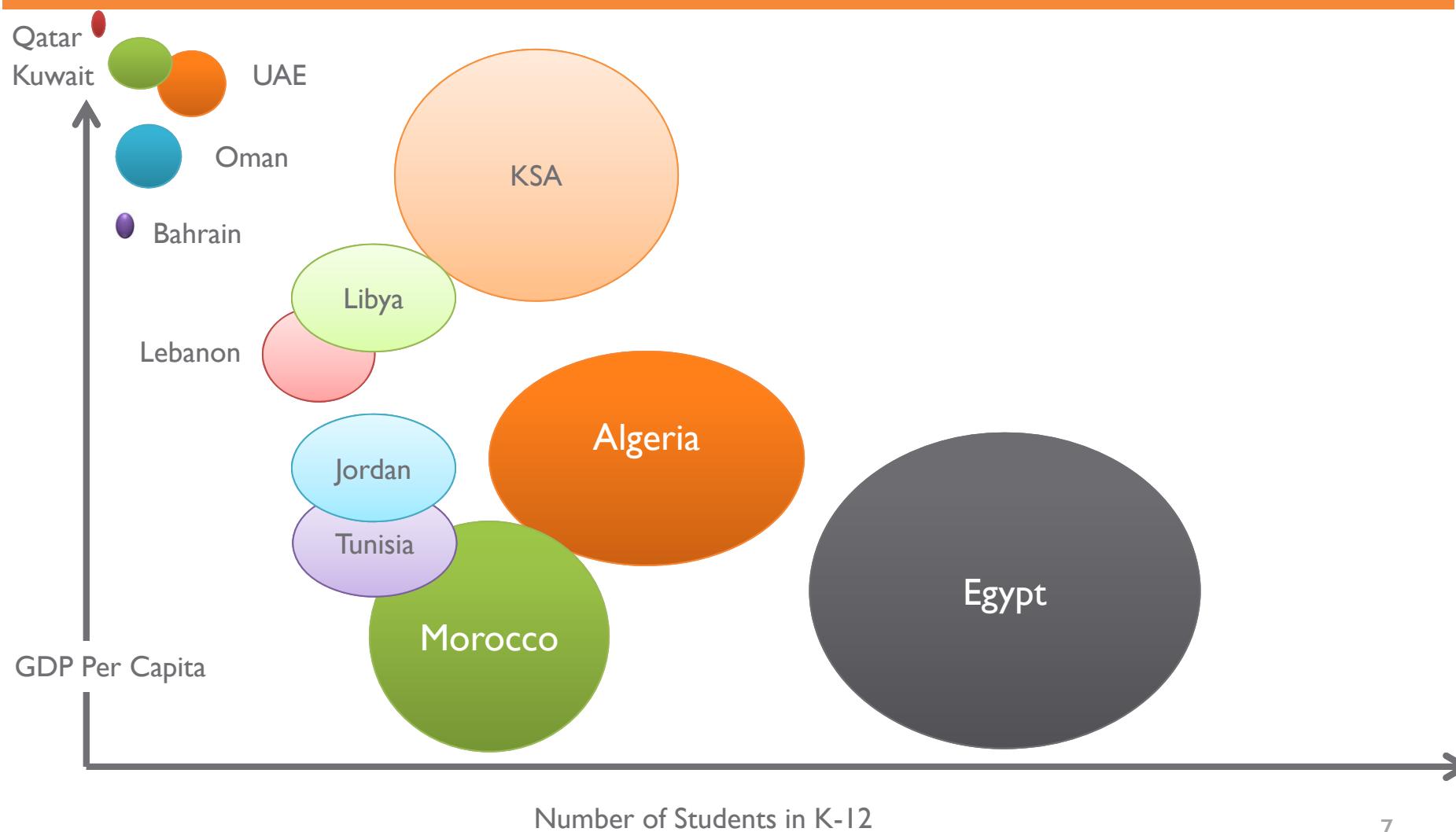
MENA is a Home of 100 Million Students by 2025

Number of Students in million in 2013 vs. Spending on Education per Student in USD

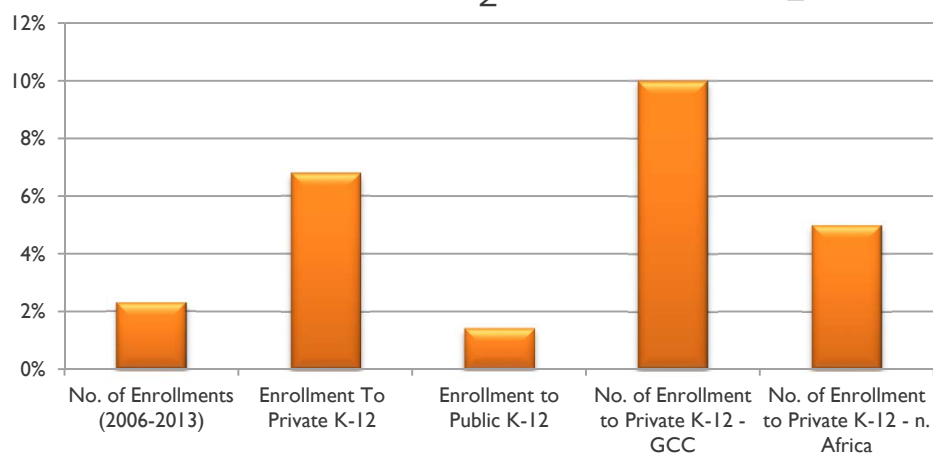
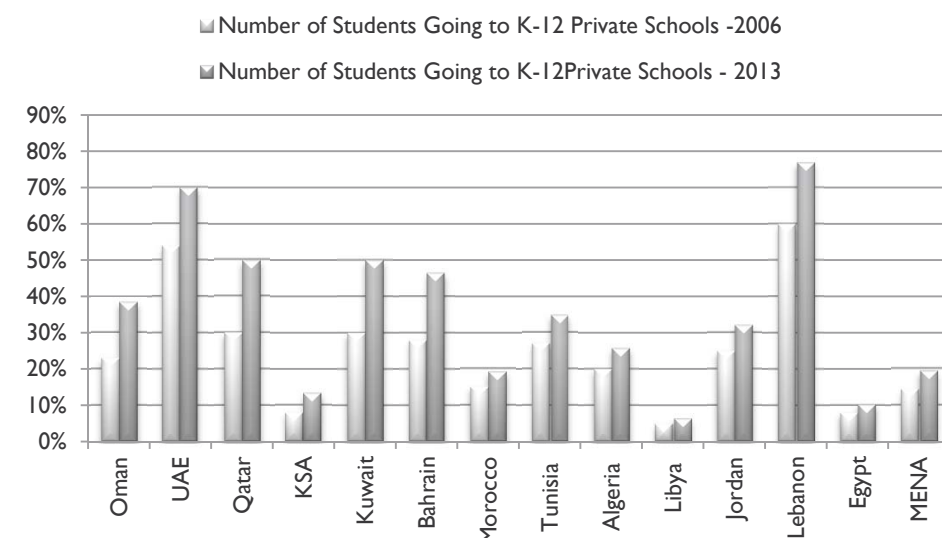


- Over the last decade (2000–10), the region’s population growth averaged 2.4% p.a. reaching a population base of 370m, which was higher than the global average of 1.3%.
- Total number of students in primary, secondary, and tertiary education grew to reach 56.0 million in 2013 and will reach 100 million by 2025 (an additional 4.0 million every year)
- Average annual spending on Education per student stands at US\$1857 (Egypt the lowest at US\$433/Student - Qatar is the Highest at 20,000 / Student)

Affordability / Number of Students

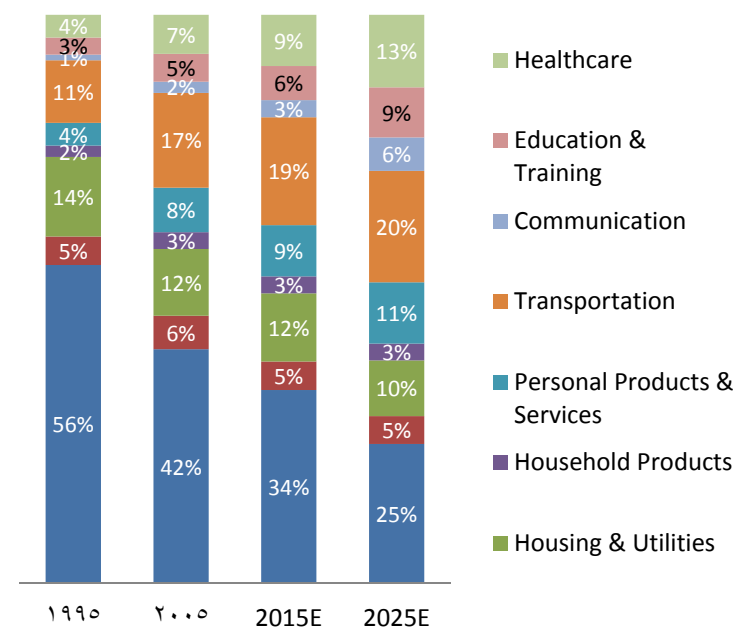
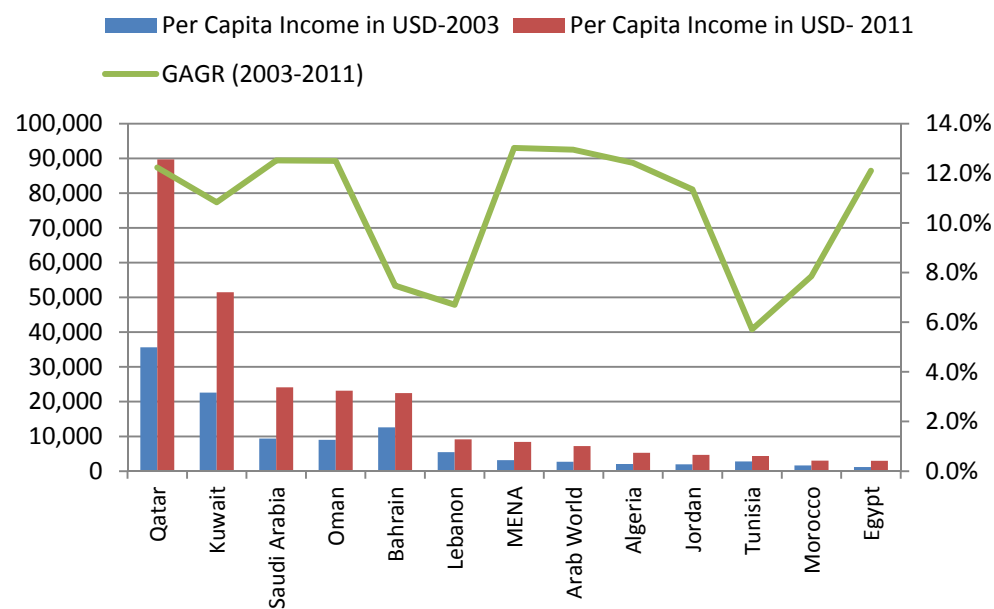


20% of Pupils go to Private Schools



- An increasing number of Arab Students shifting from public to private K-12
- Since 2006, number of Enrollments to Private Schools grew at 6% compared to 1.5% to Public Schools
- Despite the higher fee structure, private schools offering international curriculum are extremely popular among expatriate population in the GCC and upper middle class in rest of MENA region
- GCC is witnessing migration of students from North of Africa countries mainly for better quality of education
- Private Education is highly fragmented with a great potential for PE Funds and Institutional Investors to build wide regional coverage

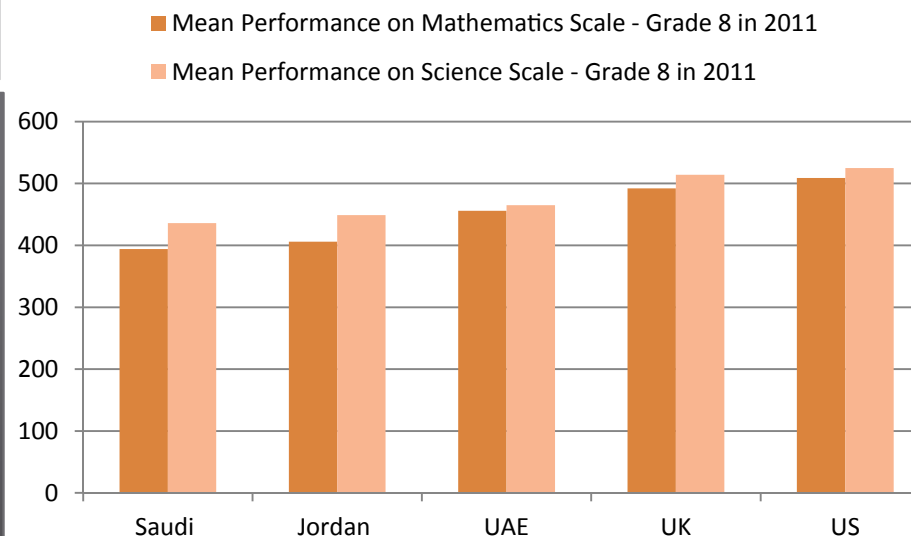
Middle Class / Spending Patters



Challenges & Opportunities

Challenges

- Lack of qualified Teachers – MENA needs and additional 450,000 teachers by 2015
- Outdated curriculum with focus on Teacher –centric curriculums
- Poor schooling facilities
- Low quality of education especially in North of Africa in terms of level of access to internet, investing in modern technology, updated curriculums, specialized research...etc



Opportunities / Drivers

- Large and growing population base coupled with high enrollment rates
- 20% of K-12 students go to private schools
- Growing middle class and affordability
- Increase of awareness of importance of high quality education

Key Considerations

<p>Type of Investors</p>	<ul style="list-style-type: none"> ▪ Real Estate Investors: Have access to Real Estate / Land ▪ Cash Investors: Finance Construction and Working Capital
<p>Expected Return</p>	<ul style="list-style-type: none"> ▪ C 15% p.a. slightly lower than average required rate of return in a typical private equity transaction
<p>Investment Horizon</p>	<ul style="list-style-type: none"> ▪ Usually longer than typical PE Funds (10-15 years)
<p>Investment Criteria</p>	<ul style="list-style-type: none"> ▪ Existing vs. Green Field ▪ Elite, Branded or Unbranded Operator ▪ Location: GCC vs. North Africa ▪ Market Segment: Premium vs. Middle Class ▪ Curriculum: Local vs. International
<p>Risk Management</p>	<ul style="list-style-type: none"> ▪ Investment Risks: Regulatory, Pricing, Currency, Operations, Country & Political Risks
<p>Exit Strategy</p>	<ul style="list-style-type: none"> ▪ IPOs is not widely tested yet within the region ▪ Trade Sale of Assets is the most common practice

Valuation

Cash Inflows:

1. **Market Share:** Government is the sole competitor for private sector, therefore the opportunity is unlimited for private sector to take over and gain bigger market share at the expense of the inefficient / poor governments
2. **Sustainability of Business Model:** Schooling is a sustainable and defensive business model and unlikely to witness a major drop regardless the overall economic performance
3. **Predictability of Cash Flow:** On average students stay 3-4 years as long as they get an acceptable quality of education and good value for money.
4. **Pricing Strategy:** In general Demand is not driven by pricing but by quality and reputation where Operator should have a good track record

Cash Outflows:

1. **Low working Capital requirements:** Unlike most of other business models, schools get their cash flow in advance. Therefore they don't need a big working capital to finance annual expenses
2. **Land is the major Capex item:** Land & Construction – biggest cost items – hit the project at the beginning
3. **Salaries / Revenues Ratio:** Always leave a positive surplus to the school operator as salaries are always linked to inflation while revenues are not but to parents income
4. **Investing in Technology:** Questionable and based on which market and which segment

Takeaways

1. Education market in the MENA region is large and resilient market with very significant growth potential on the back of favorable demographics
2. Key challenges are lack of qualified teachers, outdated curriculum, and high Capex requirements
3. Opportunities: An increasing number of students are shifting towards international and private schools amid growth in wealth, awareness and greater preference towards the better education system
4. Investing in Education is profitable subject to addressing key considerations including:
 1. Access to land (Real Estate) with realistic return objective
 2. Pick an operator with a good and reliable track record
 3. Target the appropriate market segment / country
 4. Provide value for money good quality of education through a reasonable pricing strategy.

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Thank You