

ASX announcement

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Acquisition of the British Council's IELTS operations in India

IDP Education Limited ("IDP") has entered into a binding agreement to acquire 100% of the British Council's Indian IELTS operations ("BC IELTS India") for £130 million on a debt free, cash free basis (the "Transaction").

IDP and the British Council currently both administer IELTS tests in India operating parallel pan-Indian distribution networks. The Transaction will bring BC IELTS India operations under IDP ownership, establishing a single network that provides the foundation for IELTS to build on its leadership position in India. Post transaction, IDP will be the sole distributor of IELTS in the Indian market.

India is the largest IELTS market globally by volume and has exhibited one of the highest country growth rates in recent years with historic annual volume growth of approximately 21% between CY10 and CY19 (prior to the impact of COVID-19).

IELTS, and the high stakes English language testing industry in India more broadly, benefits from several supportive structural growth drivers including strong population growth, a relatively young demographic, a high propensity to study abroad and high levels of demand for migration to English speaking countries.

The acquisition is highly strategic for IDP and provides several benefits:

- Increased exposure to the high-growth Indian IELTS market
- Simplified distribution arrangements providing the opportunity to simplify and improve the delivery of IELTS to test takers in India
- Ability to deliver continuity for IELTS customers by delivering a consistent, trusted test experience throughout the transition process from the British Council to IDP
- Scope for material combination benefits with estimated run-rate synergies of A\$6 million – A\$8 million expected to be delivered within 24 months of completion
- De-risked integration given IDP's existing leading market position and deep understanding of the Indian market
- A financially compelling transaction for IDP shareholders with EPS accretion of approximately 13% (pre-synergies) on a pro forma CY19 basis (reflecting the 12 months prior to the impact of COVID-19)¹

Andrew Barkla, CEO of IDP, said that bringing the British Council's operations under the IDP umbrella in India signifies a step forward for IELTS and its customers.

"While the pandemic prompted both the British Council and IDP to adapt operations in light of the changing environment, it also presented us with opportunities for new ways of working and innovation," Mr Barkla said.

¹ Prior to the impact of AASB-16. Assumes exchange rate of 1.83 AUD : 1 GBP

“With the combined team of IELTS experts from IDP and the British Council, a strong strategy and a clear purpose, we are ready to take this next step forward in India.”

Mr Barkla said the agreement provides the foundation for IELTS to build on its global leadership position. “IELTS’s 30-year history and global partnership model means it has globally-standardised quality and integrity processes already built into every centre’s operations.”

“Test takers and organisations can continue to have confidence their IELTS score is a true and trusted reflection of their language ability. This agreement enables us to build on IDP’s focus on enhancing services to test takers in India.”

Kate Ewart-Biggs, Interim CEO of the British Council, reiterated its commitment to its broader services in India.

“Distributing IELTS solely through IDP in India will simplify and improve the customer experience for IELTS test takers. As IDP already delivers IELTS in India, the high-quality service provided to IELTS customers will remain the same.”

“To ensure we could continue to deliver on our global cultural relations mission, we explored strategic options for the English examinations business with IDP in India in 2020. The proceeds of the sale will enable the British Council to improve its financial position following the impact of COVID-19 on our finances,” Kate said.

“Our wider British Council work will continue in India. We remain committed to realising our global goal of building trust and understanding between the United Kingdom and India through arts, education, assessment and the English language.”

“We would like to recognise the hard work of our staff across India who have worked tirelessly for many years and especially throughout the COVID-19 pandemic. It is our leading British Council IELTS teams in India, now transitioning to IDP, who put their heart and soul into delivering safe and trusted testing services year on year,” Kate said.

Financial Metrics

The purchase price of BC IELTS India is £130 million on a debt free, cash free basis.

The Transaction is estimated to be approximately 13% EPS accretive (pre-synergies) on a pro forma CY19 basis (reflecting the 12 months prior to the impact of COVID-19).²

IDP will fund the acquisition from existing cash and debt.

Detailed integration planning has been undertaken by IDP alongside due diligence, noting IDP’s existing market position and deep understanding of the Indian market helps de-risk execution.

The Transaction remains subject to customary completion conditions. Completion is expected to occur in August 2021.

COVID-19 Impact on India

The “second-wave” of COVID-19 in India and the resulting various State and city-based lockdowns and restrictions impacted the ability of both IDP and the British Council to undertake IELTS testing in Q4 FY21.

² Prior to the impact of AASB-16. Assumes exchange rate of 1.83 AUD : 1 GBP

Trading conditions have improved in recent weeks with the progressive lifting of restrictions allowing IDP to recommence testing in most states, with approximately 95% of installed capacity now available (as at 30 June 2021).

As was evidenced during the “first wave” last year, IDP expects that IELTS volumes will rebound as restrictions are removed. IDP continues to experience strong forward bookings and has been working with test takers to reschedule tests that were cancelled due to the recent restrictions.

Further details of the Transaction are provided in the accompanying investor presentation. Greenhill & Co. acted as financial adviser to IDP on the transaction.

For further information please contact

Investors & Analysts

Craig Mackey
IDP Education Limited
+61 3 9612 4400

Media

Rhys Ryan
Porter Novelli
+61 4 2722 7719

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