07-May-2024

Grand Canyon Education, Inc. (LOPE)

Q1 2024 Earnings Call

CORPORATE PARTICIPANTS

Daniel E. Bachus
Chief Financial Officer, Grand Canyon Education, Inc.

Brian E. Mueller
Chairman, Chief Executive Officer & Director, Grand Canyon Education, Inc.

OTHER PARTICIPANTS

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Steven Pawlak
Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Q1 2024 Grand Canyon Education, Inc. Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Dan Bachus, Chief Executive Officer (sic) [Chief Financial Officer] (00:39). Please go ahead.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

We got a promotion. Joining me on today's call is our Chairman and CEO, Brian Mueller. Please note that many of our comments today will contain forward-looking statements that involve risks and uncertainties. Various factors could cause our actual results to be materially different from any future results expressed or implied by such statements. These factors are discussed in our SEC filings, including our annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K. We undertake no obligation to provide updates with regard to the forward-looking statements made during this call, and we recommend that all investors review these reports thoroughly before taking a financial position in GCE.

And with that, I will turn the call over to Brian Mueller, our Chief Executive Officer.

Brian E. Mueller

Chairman, Chief Executive Officer & Director, Grand Canyon Education, Inc.

Good afternoon and thank you for joining Grand Canyon Education's first quarter 2024 conference call. GCE had another strong quarter, exceeding enrollment expectations by producing online new starts that were in the high single digits over the prior year and also continuing to produce strong retention rates, exceeding revenue guidance estimates at midpoint by $2.4 million, producing a $0.13 beat in adjusted diluted earnings per share to consensus while continuing to invest heavily in initiatives for our university partners.

Judging by these results in the current organic lead flow, there has never been greater interest in what is happening at Grand Canyon Education and its 23 partner institutions. There's a lot being said and written about Grand Canyon Education and its largest partner, Grand Canyon University, with regards to its growing enrollments in the midst of declining enrollments at many universities across the country. I want to start by reviewing the real reasons that this is happening.

There's a vast amount of untapped potential in the American labor force today. There are still universities that chase after U.S. News & World Report rankings. Unfortunately, the criteria for attaining those rankings have nothing to do with tapping into that unmet potential. For example, the fact that there are nursing, teacher, technology, and engineering shortages, just to name a few, is a direct result of misplaced university priorities.

Our success is the result of trying to understand the life situations of students and the nature of what it is they need to learn. The combination of creative delivery models and relevant programs is driving the interest in what we are doing. We currently deliver our 300-plus academic programs across five creative delivery platforms.

Number one, GCU's traditional ground campus is designed around the needs of 18-year-old high school graduates who are able to spend three or four years on a college campus preparing for life anmard work as adults. Their learning is primarily in physical brick-and-mortar classrooms and other on-campus venues and in internships in organizations throughout the Greater Phoenix area.

Second, GCU's online campus is designed for working adult students who enter the academic programs whose content can be learned totally in an online environment. The third platform is for students who can't spend three or four years on a college campus but what they are learning can't be totally learned online. The 80 hybrid locations we are building are for students entering programs where some of the content can be learned online while a significant part must be learned in a brick-and-mortar laboratory setting.

Currently, it is healthcare programs, specifically nursing, that are offered in those settings. But eventually, we will add additional programs that fit the hybrid methodology. Our total investment in these studies will exceed $240 million and allow us to teach approximately 50,000 students.

The fourth platform is for students who want access to the rapidly expanding trade professions. These are shorter programs in a physical brick-and-mortar setting that combine real world work experience with classroom learning. These students, after gaining employment, can finish their bachelor's degree online. We are developing a fifth platform for students who are 18-year-old high school graduates who want a three- or four-year college experience but want to do it at a distance.

I again spent some time on this 40,000-foot view of what we are doing with our partners because there are people writing about why they think we are experiencing success in a troubled industry. The reality is higher education needs to move way past the simple dichotomy of either learning on a campus or doing it online. There are vast shortages in areas like teaching and nursing because we lack creative models of delivery that take into account the student's life situation and the nature of what it is they need to learn rather than pursuing outdated and irrelevant U.S. News & World Report rankings. But to teach these programs at scale and in certain cases at a distance take significant investment in people, technology and process, investments we have made and will continue to make.

With that, I would like to review the results of the four current delivery platforms at Grand Canyon Education. First, the online campus at Grand Canyon University. New starts were up in the high single digits over first quarter of the prior year, and total enrollment growth continues to be higher than our long-term objectives, up 9.2% over the prior year. There are many reasons for this, but I want to highlight four.

One, we have stayed hyper focused on opportunities that exist in today's labor market, and since the beginning of the pandemic, GCU has rolled out 144 new programs, [ph] emphases (06:00) and certificates across the 10 colleges. These programs are tied directly to labor market opportunities for students and account for 7.3% of the new students that started in the first quarter. One of the responses of universities to the declining enrollments during the pandemic was to reduce the number of programs they offered.

Number two, we continue to work with employers directly to address their workforce shortages. This effort is focused on the industries of education, healthcare, technology, public safety, and the military. In the first quarter, new starts from this work increased 11.8%.

Number three, the retention of students in the first quarter continues to be strong because of the delivery of relevancy of the programs the students are entering and their direct tie to the students' career aspirations.

Four, GCU has resisted responding to the slower growth during the pandemic by raising tuition significantly, which many institutions have done. Online net tuition increases since 2018 have averaged approximately 1% per year. We anticipate new enrollments to be up year-over-year in 2024 in the mid to high single digits. This deceleration from new enrollment growth in 2023 is not the result of a decrease in interest in GCU online as we anticipate new enrollments to be up significantly on an absolute basis. It is primarily due to reacceleration of online starts that took place in 2023.

Second, the GCU ground campus for traditional students. We currently believe based on early indications for fall 2024 that GCU's traditional on-campus enrollment will return to its normal growth trajectory based upon Discover GCU visits being up nearly 50% year-to-date while the number of traditional age students desiring to attend online continues to exceed prior years as well.

Because of GCU's significant advantages, including the very low price point, very low average debt levels, percent of students completing in less than four years, and the relevancy of GCU academic programs, we anticipated GCU will benefit from both trends. We will continue to focus on leading GCU's growth goals for traditional students attending on GCU's campus, with GCU's goal still being 50,000 and also focus on traditional age students across the country who want to do their academic work from home. We remain concerned about the impact of the Department of Education's FAFSA delays have had on students, but we continue to work around them the best we can.

Third, Grand Canyon Education's hybrid campus had an increase in enrollment year-over-year of 4% in the first quarter. New spring enrollments were up approximately 30% year-over-year, and we expect the new enrollment growth rate in the summer of 2024 to be up over 25% year-over-year. There are two main reasons for this.

One, almost all of our active ABSN partners have responded to the younger students interested in ABSN programs by admitting advanced standing students or are in the process of making that change. Students with partially completed degrees have accumulated a great deal of debt and are very interested in nursing careers but didn't have an efficient way to earn the prerequisite science coursework.

GCU created the science courses and some other gen ed courses so they could be delivered online in eight weeks. Students can access these courses from anywhere in the world. There are start opportunities almost every week. These courses have been made very affordable, are taught by experienced faculty, class sizes are low, and there's a tremendous amount of academic support, including an artificial intelligence project that went live in October 2023, which provides students 24/7 access to tutoring.

Since implementing these courses, we have already enrolled approximately 7,836 students. We have a waterfall report that allows us to know how students are progressing through their prerequisite courses and when they will be eligible to start at one of our ABSN sites. The success rate of students who successfully enter the ABSN programs is 90% and the first-time pass rate on the NCLEX exam is approximately 90%. We now have an extremely efficient way to get students academically eligible and prepared to enter the program.

The positive results we saw in the fall and spring semesters we anticipate will continue. There has never been greater interest among potential students for entering the healthcare professions and specifically nursing. Because of the low unemployment rate, the interest has shifted to these younger students who haven't accumulated a great deal of debt completing a bachelor's degree in another area and are underemployed. Nearly all our partners have responded positively to the change needed to serve the advanced standing students. Our goal is still to have 80 locations with our partners with 40 of those locations being GCU locations.

Fourth, the Center for Workforce Development at Grand Canyon University. The 2022-2023 school year, we started 80 students in GCU's electricians' pre-apprenticeship program in partnership with companies that are experiencing labor shortages in that area and are excited about hiring GCU's graduates. The program consists of four core credit courses and runs one semester. 74 students successfully completed the program in the first year. This past school year, we started 233 students in the program. 123 students completed this program in the fall and 82 in the spring of 2024. GCU also has plans to begin offering this program at one of our locations outside of Arizona in 2024.

This past fall, GCU also started 19 students in a manufacturing certificate program. GCU is running a small parts manufacturing business on-campus that is doing work for some of the major companies in Arizona. These students are going to school for 20 hours a week and then work in the facility as a paid employee for 20 hours. At the end of the semester, they received a manufacturing certificate, became eligible for employment in Arizona's fast-growing manufacturing industry.

GCU's growing engineering college also has students assisting with this project. Once this concept has been successfully proved out, we expect to work with GCU to scale this program and then add others.

I started out talking about the relevant programs and creative delivery models that GCE has implemented with its 23 partner institutions. In the five-plus years since GCE has become a service provider, it has helped its partners accomplish the following.

In that time, GCE has helped Grand Canyon University graduate 159,042 students, 43,459 in education including 20,969 first-time teachers at a time when teacher shortages have created a national crisis; 44,348 in nursing and healthcare professions including 2,267 pre-licensure nurses at a time when there is a huge shortage of nurses; 31,301 in the College of Humanities and Social Sciences including thousands in counseling and social work where there are also huge shortages.

College of Business has become one of the largest business schools in America and has produced 27,373 graduates. The College of Science, Engineering and Technology has grown by 225% and provided 6,081 graduates. The Doctoral college, Honors College, and College of Theology also continued to grow. In addition, GCE has helped its other partners graduate 15,493 pre-licensure nurses and occupational therapist assistants. The numbers that I have just cited have all happened in the almost six years since the GCU-GCE transaction and since GCE has become an education services provider.

Service revenue was $274.7 million for the first quarter of 2024, an increase of $24.6 million or 9.8% as compared to the $250.1 million for the first quarter of 2023. The increase year-over-year in service revenue was primarily due to an increase in GCU enrollments of 7.7% and an increase in revenue per student year-over-year.

Operating income for the three months ended March 34, (sic) [31] (14:42) 2024 was $84.5 million, an increase of $10 million as compared to $74.5 million for the same period in 2023. The operating margin for the three months ended March 31, 2024 was 30.8% as compared to 29.8% for the three months ended March 31, 2023.

Net income increased 14.2% to $68 million for the first quarter 2024 compared to $59.6 million for the same period in 2023. GAAP diluted income per share for the three months ended March 31, 2024 is $2.29. As adjusted, non-GAAP diluted income per share for the three months ended March 31, 2023 (sic) [2024] is $2.35.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on our 2024 first quarter, talk about changes in the income statements, balance sheet, and other items as well as to discuss the upcoming 2024 guidance.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

Thanks, Brian. Included in our Form 8-K filed with the SEC, we have included non-GAAP net income and non-GAAP diluted income per share for the three months ended March 31, 2024 and 2023. The non-GAAP amounts exclude the tax effected amount of the amortization of intangible assets of $2.1 million in the first quarters of both 2024 and 2023 and the tax effected amount of the losses on fixed asset disposals of $0.1 million for the three months ended March 31, 2023.

We believe the non-GAAP financial information allows investors a more meaningful understanding of the company's performance over time. As adjusted, non-GAAP diluted income per share for the three months ended March 31, 2024 and 2023 is $2.35 and $2, respectively.

Service revenue was higher than our expectations in the first quarter of 2024 primarily due to higher than expected revenue per student and slightly better than expected enrollments. Revenue per student continues to grow on a year-over-year basis primarily due to the service revenue impact of increased room, board and other ancillary revenues at the GCU traditional campus between years.

Service revenue per student is also positively impacted by the growth in hybrid ABSN students as these students generate a significantly higher revenue per student than we earn on the other students as these agreements generally provide us with a higher revenue share percentage, the partners have higher tuition rates, and the majority of their students take more credits on average per semester as they are in accelerated programs. The increase in revenue per student was also positively impacted by the timing of the spring semester for the GCU ground traditional campus. Spring semester started one day earlier in 2024 than in 2023, which had the effect of shifting $2.1 million in service revenue from the second quarter of 2024 to the first quarter of 2024 as compared to the prior year. The additional day for leap year in 2024 added additional service revenue of $1.5 million as compared to the prior year.

Our operating margin in the first quarter 2024 was higher than our expectations primarily due to the higher revenue per student. We continue to invest heavily to meet our clients' growth goals. These investments include head count increases, travel primarily related to Discover, increased clinical costs at off-campus classroom and laboratory sites due to the nursing shortage, technology services both in head count and license fees as a result of new technology requests by our partners, and costs related to the new hybrid locations as we opened five sites in the year ended December 31, 2023, two sites in the three months ended March 31, 2024, and more will open later in 2024. The shift in the start date of GCU's traditional campus as compared to prior and additional leap day in 2024 both positively impacted the first quarter margin as well.

Our effective tax rate for the first quarter of 2024 was 22.9% compared to 22.3% in the first quarter 2023 and our guidance of 23.4%. The slightly lower effective tax rate than what was forecasted was primarily due to a slightly higher excess tax benefit on the vesting of restricted stock in the first quarter and the increase in the rate over the prior year is primarily due to higher taxable income. And in the first quarter 2023, the effective tax rate was favorably impacted by state income tax refunds.

We repurchased 171,670 shares of our common stock in the first quarter 2024 at a cost of approximately $22.5 million. Another 101,880 shares were repurchased since March 31, 2024. We have $229.1 million remaining available as of today under the share repurchase authorization. The board and the company intends to continue using a significant portion of its cash flows from operations to repurchase the shares.

Turning to the balance sheet and cash flows, total unrestricted cash and short-term investments as of March 31, 2024 were $290.7 million. GCE CapEx in the first quarter 2024 including CapEx for new off-campus classroom and laboratory site was approximately $9 million or 3.3% of service revenue. We still anticipate CapEx for 2024 to be between $30 million and $40 million.

Next, I would like to provide color on the guidance we have provided in our 8-K filed today. As a reminder, this guidance that we have provided in the outlook section of our 8-K filed today is GAAP net income and diluted income per share with components to adjust the GAAP, amounts to non-GAAP as adjusted net income, and non-GAAP as adjusted diluted income per share. We have updated full year 2024 guidance to include the first quarter revenue and earnings beats, have increased the second quarter revenue and earnings guidance by increasing the low end of our previously provided guidance given current trends and are reaffirming our previously provided second half guidance.

We continue to anticipate that new online enrollments will be up year-over-year in the mid to high single digits in each quarter during 2024 and that total online enrollment will continue to grow in the high single digits over the prior year throughout 2024. As Brian has discussed, the online enrollment results were outstanding in 2023. Not only did new enrollment grow at a much higher rate than we expected. In the second half of 2023, these growth rates were coming off very difficult year-over-year comps, but also retention rates significantly improved over the prior year.

These factors will impact the total enrollment growth rate in 2024. The new enrollment growth is a deceleration from 2023 in growth rate, but not in the overall new students being added and total online growth rates are expected to remain over our long-term objectives of mid-single-digit growth throughout the year. There could be some upside to our second half projections given the strong lead trends, but given the very significant growth in 2023 and thus the difficult comps, we believe these estimates are appropriate.

As a reminder, we also anticipate seeing a continued decline in the growth rate of reentries, students returning to school after a break due to 2023 retention rates, and a significant year-over-year increase in graduates, both of which will put pressure on the total enrollment growth rates. As Brian discussed earlier, the new student growth rate in the hybrid pillar is predicted to grow on a year-over-year basis greater than 25% for the summer 2024 start and will moderate to high single digits growth year-over-year in the fall start excluding closed locations due to much more difficult comps as fall 2023 is when we start to see a significant acceleration of new start growth. The revenue growth rate for the hybrid pillar as a result of the enrollment growth continues to be partially offset by changes made to the contracts for the university partners that are no longer being reimbursed for faculty costs and the site closings discussed in last quarter's call.

On the expense side, as you recall, we made significant investments in the past few years primarily in head count and travel expenses to meet our growth goals of our partners. Our head count growth has slowed so far in 2024, which is one of the reasons we returned to margin expansion. But there are still expense categories that we continue to see year-over-year increases greater than revenue growth, including those that I discussed earlier and on last quarter's earnings call.

We anticipate the hybrid pillar will continue to lose money during the remainder of 2024 given that a number of mature sites remain significantly below pre-COVID student counts. The newer sites are generally back to historical margin profiles as they're back to growing at rates more similar to what we experienced pre-COVID. But to get back to profitability, the mature sites need to get back to pre-COVID enrollment levels. Those are now admitting advanced standing students are generally back to growth. Those have not generally continued to see enrollment challenges.

We have not included in our guidance severance costs related to Dan Briggs' retirement. That amount will be recorded at the time of his departure and will be included in our reconciliation to adjusted non-GAAP diluted income per share and adjusted EBITDA. In estimating interest income for 2024, we continue to assume similar cash balances to 2023 and a similar interest rate environment over the next three months and thus have raised our interest income estimate for the second quarter, but are conservatively projecting a decline in interest rates in the second half of 2024 and thus have not adjusted our original estimates in the second half.

We believe the effective tax rate for the last three quarters of 2024 will be 24.9%, 24.9%, and 22.8%, which is unchanged from previous guidance. The effective tax rate will continue to be higher in 2024 than in 2023 because of the impact of state income taxes as revenues continue to grow at the offsite locations outside of Arizona driving our tax rate increase. These estimates do not assume a contribution in lieu of state income taxes, but if one is made, that will increase G&A expense in the third quarter and decrease the effective tax rate in the second half of the year.

Our weighted average shares guidance assumes that we purchase most of the remaining amount authorized by the board over the rest of the year although given the rise in the stock price, we anticipate purchasing less stock in 2024 than in 2023. The board continues to authorize the repurchase of shares as it believes the stock remains undervalued based on the metrics it uses to evaluate, including the ratio of enterprise value to adjusted EBITDA and the free cash flow yield rather than the multiples of other education companies as although we can be viewed as being in the same sector, there are few, if any, appropriate comps.

On an enterprise value to adjusted EBITDA basis, the stock is currently traded at roughly $12.1, which is less than the recent S&P average of $17. And the average free cash flow yield for the S&P 500 is 2.8% whereas the company's free cash flow yield is approximately 5.6%.

Last, a few months ago, we issued our first corporate social responsibility report. We are very proud of the results highlighted in that report. It is located at gce.com under the Corporate Governance tab.

I'll now turn the call over to the moderator so that we can answer questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will conduct the question-and-answer session. [Operator Instructions] Our first question comes from the line of Jeff Silber of BMO Capital Markets. Your line is now open.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Thanks so much. We've been hearing and seeing a lot about the potential impact on college fall enrollment because of the fiasco in the FAFSA applications. Can you talk a little bit about what you're seeing, if anything?

And then a broader question. If for some reason there is some delay in students enrolling this fall, are you doing anything to potentially get them in maybe next January so they don't have to wait a whole another year before enrolling? Thanks.

Brian E. Mueller
Chairman, Chief Executive Officer & Director, Grand Canyon Education, Inc.

A

Well, we put a big focus on bringing high school seniors, really good students from around the country to campus this year and the result was overwhelming. We're up 50% in terms of high school seniors that are visiting campus. And so the FAFSA delays, with the FAFSA delays, we were still experiencing the kind of application numbers and the kind of registration numbers that we expected to hit our enrollment targets for new students on campus in the fall.

Just recently, with the FAFSA site becoming operational, we have implemented a plan to contact all those students who weren't able to receive an offer from us previously. That number was in the thousands and so we have got right now a pretty massive operation in place to contact those students who had expressed some interest, had filled out the FAFSA, but we weren't able to give them an idea as to what their costs were going to be.

And so we're trying to make up now in the months of May, June, and July what we weren't able to do in the months of January, February, and March. And so it'll be interesting to see how much of that ground we can make up. Early indications are that some students have already made their mind up to sit out this year because they just couldn't get any information but there are still a lot that are open.

And so I think two things. Number one, there will be low-income students. There will be less low-income students go to four-year colleges this fall than have gone in the past. I don't think there's any question about that and we'll experience some of that. I think that will be offset by the fact that we had brought so many students to campus that were not Pell-eligible kinds of students. And so I think we'll make up for that shortage with those students. And I think we'll also make up more than most institutions with those Pell-eligible students because of the effort that we're going to make in the summer months. But the way it will all come out at the end is still a little bit unknown.

The unfortunate thing is that the fact that the FAFSA site was not operational impacted first generation low-income students by far the most since and so that's too bad but that's what's happened. Bottom line is I believe we'll hit our new enrollment target on a traditional ground campus because we have made up for it with the other campus visitations and because we'll make up more than most institutions will with those Pell-eligible students.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. Appreciate the color there. And forgive me, I missed some of the opening remarks. But were there any specific program areas where you would call out greater strength than others in the past quarter?

Brian E. Mueller
Chairman, Chief Executive Officer & Director, Grand Canyon Education, Inc.

A

From an online standpoint, yes. We have a program going in our education area that is absolutely outstanding. We have contracts with school districts all over the country where we're helping paraprofessionals achieve their baccalaureate degree and become licensed teachers. And that program was a significant part of our successful growth strategy. It's one of the most unique programs, I believe, in the country.

We had 11 graduations just these last two weeks and in 2 of our graduations, we had one of those people speak, one of those students speak. He actually was a police officer and a detective for 20 years in New Jersey, retired, became a paraprofessional in New Jersey public school district, entered our program that we delivered to New Jersey public schools and she earned her baccalaureate degree. And now she's a licensed teacher teaching math to eighth graders in a New Jersey public school. We have 7,000 students now like that preparing to be teachers in the public school system, and that was a significant contributor.

Another one was the 7,000 students that we now have taking prerequisite courses preparing to be in one of our ABSN sites. That's an amazing phenomenon that's taking place. It's not that there aren't enough people that want to be nurses. There's no efficient way to get them prepared to do it, especially in those science areas. And so opening up those courses the last couple years to students from around the country has been another significant contributor to our online success rate.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

All right. Great. Thank you so much.

Brian E. Mueller
Chairman, Chief Executive Officer & Director, Grand Canyon Education, Inc.

A

Yeah.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Jeff Meuler of Baird. Your line is now open.

Steven Pawlak
Analyst, Robert W. Baird & Co., Inc.

Q

Thank you. Steven Pawlak on for Jeff. It sounds like in the hybrid pillar, your new starts were better than you were expecting last quarter. Is that just your partner programs now accepting the advanced standing students or are you seeing better demand trends end market just [ph] finishing that (32:39) better?

Brian E. Mueller
Chairman, Chief Executive Officer & Director, Grand Canyon Education, Inc.

A

Well, it starts with our GCU sites. Our GCU hybrid sites are just doing so well. We have the partnership that GCE has with GCU and the opening of those sites and they're [ph] meeting (32:57) maximum capacity very early is really helping tremendously.

Our other university partners are watching how efficiently we are making that partnership work and they're becoming open to making the changes that are necessary, the primary one being to accept students that have not completed baccalaureate degrees. And typically these are students that have been through one or two years of community college. They have 30 college credits or so and they knew that they would love to become a nurse. They have the capability of becoming a nurse and so many of our partners weren't taking those students.

When you have a person that's gone all the way through a baccalaureate program and has accumulated lots of debt, the thought of more debt to finish an ABSN program is a debilitating thought for a lot of young people. The fact that we're now taking students with 29 or 30 credits, they've attended a community college. They don't have that and we've made it an efficient way for them to earn those science credits and that learning is necessary in those courses in order to be successful in the ABSN program.

That's just changed everything and what's happening is those partner institutions are now sending their prospective students to GCU's prerequisite program, which is the most efficient way, best way to earn those credits. And so those are the two things that have really caused the reacceleration of the hybrid programs. And the future is really, really bright at this point.

Steven Pawlak
Analyst, Robert W. Baird & Co., Inc.

Q

And I guess relatedly, you had mentioned that mature sites [indiscernible] (34:39) below, I guess, your target level. Now that they're accepting advanced standing students, is it just that there needs to be time for them to return to sort of their full enrollment or are there other actions [ph] that have been (34:55) taken?

Brian E. Mueller
Chairman, Chief Executive Officer & Director, Grand Canyon Education, Inc.

A

No, it's just time. It's time because a lot of the students, when the economy was different, when unemployment was higher and there were baccalaureate-prepared people that were interested in [ph] re-careering (35:09) into nursing, they had completed baccalaureate degrees and so they needed less of the science and gen ed courses.

Moving away from that target because a target just shrunk and moving to these other students is a very, very positive thing. But it takes time for those students to earn the credits necessary to get eligible and so that's why that waterfall is so important. We can watch as the students in those prerequisite courses grow. We know where each one is going to complete their prereqs and be eligible and so it's just a matter of time. We have a lot of confidence that we've got the right strategy now and the right methodology, but it does take time for those younger students to earn them credits and do the learning necessary to get them ready for the ABSN program. So it is just time.

Steven Pawlak
Analyst, Robert W. Baird & Co., Inc.

Q

Understood. Thank you very much.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

We have reached the end of our first quarter conference call. We appreciate your time and interest in Grand Canyon Education. If you still have questions, please contact myself, Dan Bachus. Thank you.

Operator: All right. Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.