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# Grand Canyon Education, Inc. (LOPE)

Q1 2023 Earnings Call

### CORPORATE PARTICIPANTS

**Daniel E. Bachus** 

Chief Financial Officer, Grand Canyon Education, Inc.

Brian E. Mueller

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

### OTHER PARTICIPANTS

Jeffrey P. Meuler

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

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

### MANAGEMENT DISCUSSION SECTION

**Operator**: Good day and thank you for standing by. Welcome to the Q1 2023 Earnings Conference Call for Grand Canyon Education, Inc. 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 speaker today, Chief Financial Officer, Dan Bachus. Please go ahead.

#### Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

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.

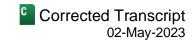
And with that, I will turn the call over to Brian.

#### Brian E. Mueller

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

Good afternoon and thank you for joining Grand Canyon Education's first quarter fiscal year 2023 conference call.

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GCE had a very good quarter, exceeding enrollment expectations, exceeding consensus revenue estimates at midpoint by \$0.6 million and producing a \$0.04 beat in adjusted diluted earnings per share to consensus. Given how most of higher education is coming out of COVID years, these are excellent results.

Most importantly, GCU online produced significant new enrollment growth for the third consecutive quarter over prior year, and that momentum is expected to continue into the second quarter of 2023.

I want to begin again by taking a step back and explaining why this is happening and briefly review what has happened since the GCE, GCU transaction took place almost five years ago. I've often said that in the past, small and elite has won the day in higher education, especially in the areas like U.S. News & World Report rankings. In the future, it will be institutions who are large, scalable and flexible in how they offer higher education. We expect to impact adults across the lifespan using technology to build platforms that take into account the life situation of the student and the nature of the content and skills that need to be learned.

GCE has invested approximately \$300 million, producing its own learning management and administrative system that allows it and its partners to manage over 7,000 full-time and adjunct faculty members, 112,600 students and over 320 academic programs, emphases and certificates across four delivery platforms. This system has automated processes including admissions, transcript collection and evaluation, schedule building, financial aid processing, faculty recruitment, faculty assignment and payroll, content acquisition, assessing learning outcomes, student-teacher placement, counseling and social work internships, and the list goes on.

The administrative capability of the system allows faculty and students to focus on the learning, which is still a small group instructor-led process that is highly interpersonal, collaborative, focused on writing, critical thinking and problem solving and produces outstanding outcomes. GCE currently employs approximately 4,000 full-time professionals and approximately 1,500 student workers, as it continues to build out its capabilities to grow faculty, students, programs and delivery platform for its university partners.

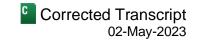
Leveraging this infrastructure has allowed GCE's partners to expand programs that are critical to the economy, maintain tuition levels in a period of rapid tuition increases across the country and make access to higher education affordable to all socioeconomic classes of Americans without any burden on the taxpayer.

In the five 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 130,276 students, 35,815 in education, including 16,537 first-time teachers, at the time when teacher shortages have created a national crisis; 37,685 in nursing and healthcare professions, including 1,767 pre-licensure nurses at a time when there was a huge shortage of nurses; 24,863 in the College of Humanities and Social Sciences, including thousands in counseling and social work, where there are also huge shortages.

The College of Business has become one of the largest business schools in America and has produced 22,151 graduates. The College of Science, Engineering and Technology has grown by 183% and provided 4,539 graduates. The Doctoral College, Honors College and College of Theology also continued to grow. The numbers that I have just cited have all happened in the almost five years since GCU has become a non-profit institution and GCE has become an education service provider.

Our partnership with GCU has given us the ability to invest 576 million additional dollars in academic and residential life infrastructure for its ground traditional campus, bringing a total investment to almost \$2 billion. Currently, the campus is ranked 16th in the country by Niche.com. Very importantly, GCE has assisted GCU in

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opening 138 new academic programs, emphases and certificates during the almost five years. 12.9% of the new students enrolled in the first quarter enrolled in these new programs.

During this time, GCU has not raised tuition on its ground traditional campus with only nominal increases in certain programs online. As a result, GCU students take out less debt than the average state university student. GCU students take out only 50% in parent loan amounts compared to students at our three state universities. GCU students have a 1.5% cohort default rate on student loans compared to the almost recently released national average of 2.3% and has a 90/10 calculation of 66.2% per GCU's audited financials.

In addition, GCU has accumulated over \$400 million in cash and investment reserves while going through with annual salary increases every year for all faculty and staff. Compared to the declining enrollments and negative financial trends in higher ed across the country that accelerated during COVID, this model has produced significant results for GCU, the State of Arizona and the country.

Grand Canyon University was also ranked as the third best employer in Arizona in the 2022 Forbes America's Best Employers By State report. During this same time period, GCE has established 26 additional university partnerships. These partnerships, along with our partnerships with GCU, have created 36 locations to produce healthcare professionals, especially baccalaureate-prepared nurses. This is extremely important work since the country is expected to need 1.3 million additional nurses in the next five years alone.

A number of existing and new partners will eventually lead to 80 locations across the country. Since January 2019, 9,318 students have graduated from our other university partners' ABSN or OTA programs. I wanted to include this brief summary because there is currently a lot of discussion about the future of higher education.

Regardless of political or ideological positions, the discussion should focus on where the economy is going and where the new jobs and careers are going to be. Models that can scale and offer opportunities for access to all socioeconomic classes of Americans at no expense to the taxpayer should be supported.

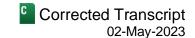
Critics point that the revenue share model is bad for universities. The past two years have proven them wrong, and we expect that in the next year, this will become even more apparent.

In inflationary periods, like the one we are currently experiencing or when demand declines as it has, GCE as a service provider absorbs the majority of the financial risk and our expertise, technology and processes have allowed our university partners to continue to benefit during these challenging times.

Now I want to review the four pillars or delivery platforms of Grand Canyon Education. First, GCU's traditional campus saw an increase of 8.9% in new students in the fall of 2022 over prior year, an increase of 8% in total ground traditional enrollment and an increase of 10.5% in residential enrollment. Approximately 70% of ground traditional students live on campus. The average incoming GPAs of the 2022-2023 class rose to 3.6% and the prestigious Honors College has grown 8.3% year-over-year with average incoming GPAs of 4.1.

Traditional campus spring enrollment was slightly better than expected due to better-than-expected fall to spring retention. These are remarkable results, given the fact that undergraduate enrollment declined by 4.2% nationally between fall 2020 and fall 2022, where during the same period of GCU's ground traditional enrollment increased by 18.3%. We expect fall 2023 new enrollments to be between 10,000 and 11,000. The quality and the relevancy of GCU's academic programs, the low-class sizes in support of its faculty that has less than a 6% turnover rate, the quality of counselling services of 20 advisory boards with over 500 companies represented, who are creating

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internships and employment opportunities for GCU students in a very affordable tuition, which hasn't been raised in 15 years, are all important contributing factors.

I also want to mention, unlike the national trend, over 2,600 of the 9,300 fall 2022 new students this year were first-gen college students. The average incoming GPAs of these first-gen students is 3.55 or almost identical to the incoming class overall. These students are largely from the lower socioeconomic strata, but their enrollment at the university, because of the very affordable tuition rate, is going directly against the national trend and is a very positive part of the GCU/GCE story.

As I said before, in the fall of 2023, we are anticipating between 10,000 and 11,000 new students. We are under construction on two new residence halls that will increase the number of beds on campus by 1,500. The number of new students will ultimately depend on the retention of continuing students and their desire to remain on campus and the competitive environment given the trends we've discussed previously. Less high school graduates, less graduates directly going to college.

Pillar 2, working adult students attending GCU online. As with traditional students attending universities across the country, 2021 saw a downturn in working adult students attending online. Unlike with traditional students attending GCU's campus, we experienced a downturn in online students as well. GCE has worked with GCU on two main strategies to combat the downturn and we are now seeing positive growth again. Number one, we have invested in B2B strategies that are well timed for this post-COVID period. The supply and demand, at least in the short run, for educated labor has flipped.

Since the country has reopened, we are working with over 26,850 industry partner locations in K-12 education, healthcare, financial services, social service agencies, technology and engineering companies, military bases, et cetera, developing custom strategic initiatives that are helping organizations grow their talent from inside. The number of new students that started through these strategies grew 24% over the prior year in the first quarter.

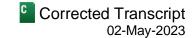
Number two, GCE continues to work with GCU to roll out new and relevant programs. Since the transition almost five years ago, GCU has rolled out 138 new programs, emphases and certificates. 12.9% of new students enrolled in these programs in this latest quarter. This has resulted in the first quarter new online enrollments growing in the low teens over the prior year and we are currently projecting new enrollment growth in the second quarter of 2023 to be similar, high single digit to low teens.

Based on these trends, we returned to total online growth in this quarter. It is important to note that this return to positive growth has been accomplished with no loss of strength in the quality of GCU's online student body, and as a result, no degradation of the quality metrics, including good graduation rates, low cohort default rates and continued low debt amounts – student debt amounts.

We anticipate new enrollment growth to again be in the high single-digit, low teens in the second quarter, and then we'll begin to return to our long-term objective of mid-single-digit growth in the back half of the year as the comps get much tougher. This should allow us to grow total enrollment on a year-over-year basis in the low to mid-single digits by the end of the year.

Next, I would like to discuss GCE's third pillar, its healthcare partnerships. Short-term, COVID has had a negative impact. Hospitals were extremely busy, preoccupied with COVID patients and many clinical placement opportunities were cancelled. Despite these very significant challenges, many instructional assignments requiring one-on-one clinical interaction in the hospital were replaced by simulations.

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Some of our university partners requested that we reduced the cohort sizes due to concerns about the lack of clinical capacity and some of the new sites that we hoped to open, especially in large markets, have been pushed back to the fall of 2023 or 2024. Although positive signs are emerging on this front, the tight labor market has had a significant impact on the type of student interested in re-careering into nursing.

When we acquired Orbis in 2019, their partnerships were predominantly focused on post-baccalaureate students, those that had already completed a bachelor's program, and having a completed bachelor's degree was a requirement to start in the ABSN program. Students that did not have a bachelor's degree were turned away.

Today, the majority of the students interested in re-careering into nursing have not completed a bachelor's degree. Thus, we have been working with our partners and their state nursing boards to adjust these programs to allow students with 60-plus college credit to gain admittance into the ABSN program.

In addition, in partnership with GCU, we have created a much less expensive and more efficient way for these students or students that do have a bachelor's degree, but don't have the science prerequisites to complete the coursework necessary to start in the ABSN program. These challenges have in the short run caused some of our mature locations that were at capacity to shrink and some of our newer locations to not grow as fast as we would have expected, while other mature locations remain at or near capacity and some newer locations are meeting our new enrollment expectations.

We believe that these strategies will reaccelerate growth. As we work through this, we will be much more selective in the new locations that we open. We have planned to open two new sites with GCU in the Phoenix area in the fall of 2023 and are hopeful that we will be opening a new site with a new partner in Southern California in the fall as well, although permitting issues continue to hold up our ability to start construction on that site.

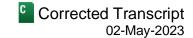
We also plan to open a couple of smaller sites with new partners that were committed to previously. I am very pleased to announce that the GCU locations grew 27.2% year-over-year from 283 to 360 students. It's extremely important [ph] because GCE would (00:16:25) ultimately like 40 of our 80 locations to be GCU locations. This relationship is good financially for GCU, but it's also good for GCE, given GCU's national footprint and brand recognition, the excellence of its nursing program and its proven ability to scale.

As with GCU's traditional campus, the long-term environment is very positive for these GCE healthcare partnerships for the following reasons. Number one, the country needs 1.3 million additional nurses in the next five years alone. Nursing programs are very expensive to operate. And given the financial pressures facing many universities, they will be unable to invest the dollars it will take to scale the programs.

Number two, GCE has the capital to invest in the continued build-out to eventually 80 locations. Number three, in addition to the runway of 80 locations, up from 36 locations currently, our enrollment budget for the coming year is only 50% of the actual spot that exist today. 50% shortfall is largely due to the lack of efficient and highly supportive prerequisite course environments, regulatory issues creating slowdowns in opening of planned locations and lack of clinical placements due to COVID issues.

Most important, there are now over 1,200 students in GCU's accelerated online science courses, preparing to earn spots in one of our 36 locations. These are eight-week courses taught mainly by full-time faculty members and provide tremendous academic support and services. There are multiple start opportunities on an every month basis. We expect that 1,200 number to continue to grow and be a leading indicator of our ability to re-establish growth on the hybrid campuses.

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GCE is working hard in investing in new enrollment, simulation, virtual reality and prerequisite strategies to be in future fill all the spots that are available. This is a transitional year for the healthcare partnerships. However, there is a 10-year runway that is very promising. It creates a winning scenario for students that want into a promising career, healthcare providers desperately needing professional nurses and universities who want a low risk way to help solve the nursing shortage, while at the same time creating additional revenue streams.

Last, we continue to see good results in our fourth pillar certificate program. We are extremely excited because these programs are desperately needed in higher education today. This past September, we launched a certificate program in partnership with GCU's newly formed Institute for Workforce Development. This certificate is referring students for a professional electricians apprenticeship program.

This is a 16 credit hour, one semester program heavily focused on the mathematical concepts necessary to prepare for a career as an electrician. This program has been designed with a major industry partner who is offering apprenticeships to the student successfully completing this program.

This partner needs 1,000 electricians for their business in Arizona alone. This partner also indicates that the country is short of minimum 100,000 electricians necessary to complete the building projects currently underway. Last fall, 300 students applied for this program, we accepted 40 into the program. 39 of the 40 students from that class completed their programs successfully and the feedback that we have received from our industry partner has been very positive.

An additional 200 submitted applications for the spring semester and we accepted another 40 in the spring. 35 of those students completed their programs successfully. Once the concept is proven, there is a potential to scale this program in a significant way. We have had many additional industry partners who have expressed interest in participation.

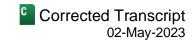
Service revenue was \$250.1 million for the first quarter of 2023, an increase of \$6 million or 2.5% as compared to \$244.1 million for the first quarter of 2022. The increase year-over-year in service revenue was primarily due to an increase in GCU traditional campus enrollments and an increase in revenue per student year-over-year, partially offset by a decrease in hybrid enrollments, primarily students in our university partner's Occupational Therapy Assistance program.

Operating income for the three months ended March 31, 2023, was \$74.5 million, a decrease of \$3 million as compared to \$77.5 million for the same period in 2022, as we continue to invest to meet our client's enrollment goals. The operating margin for the three months ended March 31, 2023 was 29.8% compared to the 31.7% for the same period in 2022.

Net income increased 2.6% to \$59.6 million for the first quarter 2023 compared to \$58.1 million for the same period in 2022. GAAP diluted income per share for the three months ended March 31, 2023 is \$1.94. As adjusted, non-GAAP diluted income per share for the three months ended March 31, 2023 is \$2 or \$0.04 over consensus estimates.

With that, I would like to turn it over to Dan Bacchus, our CFO, to give a little more color on 2023 first quarter, talk about changes in the income statement, balance sheet and other items as well as to discuss the updated 2023 quidance.

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#### **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, 2023 and 2022. The non-GAAP amounts exclude the tax-affected amount of the amortization of intangible assets of \$2.1 million in the first quarters of both 2023 and 2022 and the tax-affected amount of the losses on fixed asset disposal of \$0.1 million and \$0.7 million for the three months ended March 31, 2023 and 2022, respectively.

We believe the non-GAAP financial information allows investors to develop 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, 2023 and 2022 is \$2 and \$1.72, respectively.

Service revenue was higher than our expectations in the first quarter of 2023 due to the higher-than-expected ancillary revenues at GCU and a higher-than-expected number of students in the nursing prerequisite courses. Other online and hybrid revenues were in line with our expectations.

The ground enrollment growth rate continues to be impacted by a decline in professional study students. The hybrid enrollment growth rate is being impacted on a year-over-year basis due to the timing of site openings, a 19.9% year-over-year decline in occupational therapy assistant enrollment and a decline year-over-year in the enrollment at some of the mature sites due to challenges previously discussed.

Revenue per student continues to grow on a year-over-year basis, primarily due to the service revenue impact of the growth in the GCU traditional campus enrollment between years, which has a higher revenue per student due to room, board and other ancillary revenues and the higher revenue per student at off-campus classroom and laboratory sites.

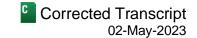
Service revenue per student for hybrid ABSN students generates a significantly higher revenue per student than we earn on the other students, as these agreements generally provide us with a higher revenue share percentage, partners have higher tuition rates and the majority of their students take more credits on average per semester as they are in accelerated program. But the increase in revenue per student was negatively impacted by year-over-year differences in the timing of the GCU traditional campus's spring semester, such the \$4.5 million shifted from the first quarter to the second quarter as compared to last year.

Our operating margin was higher than our expectations, primarily due to the higher-than-expected revenue. As I discussed on prior quarter earnings calls, we have been aggressively hiring in which head count had mostly been flat since March 2020 to meet our partners' expected future growth, which is driving increased compensation costs in technology and academic services and counseling services and support cost.

We also plan for a significant increase year-over-year in travel and employee benefits as those amounts were significantly lower than pre-COVID levels in the prior year. We also plan for increased clinical costs at off-campus classroom and laboratory sites due to the nursing shortage. This spending has generally remained in line with our expectations.

Our effective tax rate for the first quarter of 2023 was 22.3% compared to 25.2% in the first quarter of 2022 and our guidance of 22.3%. The decrease in the effective tax rate year-over-year is due to excess tax benefit of \$0.9 million in the first quarter 2023 as compared to \$0.1 million in the first quarter 2022.

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The 2022 effective tax rate was also unfavorably impacted by higher state income taxes. And in 2023, the effective tax rate was favorably impacted by state tax refunds.

We repurchased 309,978 shares of our common stock in the first quarter of 2023 at a cost of approximately \$34.9 million and another 96,547 shares since March 31, 2023 have been purchased. We have \$149.7 million remaining available as of today under our share repurchase authorization. The board and the company intends to continue using a significant portion of its cash flows from operations to repurchase its shares, but share repurchases in future years will be less than in 2021 and 2022, as we have utilized all the proceeds from the repayment of the secured note during the past two years.

Turning to the balance sheet and cash flows, total unrestricted cash and short-term investments on March 31, 2023 were \$194.5 million. GCE CapEx in the first quarter of 2023, including CapEx for new off-campus classroom and laboratory sites, is approximately \$8.6 million or 3.4% of service rev. We expect CapEx for 2023 to be similar to 2022 at between \$30 million and \$35 million.

I'd like to provide color on the updated guidance we have provided in our 8-K filed today. As a reminder, the 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 component to adjusted GAAP amounts to non-GAAP as adjusted net income and non-GAAP as adjusted diluted income per share. And we will continue to provide both GAAP net income and diluted income per share and the non-GAAP amounts with a reconciliation between the two when we report actual results.

We have updated full year 2023 guidance to include the first quarter revenue and earnings beat and are reaffirming the second, third and fourth quarters previously provided guidance. A couple of reminders. Timing differences in the start and end of the traditional campus semester pushed \$4.5 million for Q1 2023 to Q2 2023 in comparison to 2022, and \$1.3 million from Q4 2023 to Q3 2023 in comparison to 2022. We anticipate that new online enrollments will be up year-over-year in the high single digits to low teens in the second quarter.

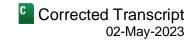
As a reminder, the comps get much more difficult in the second half as new enrollments were up year-over-year in the mid-teens in the third and fourth quarters of 2022. Thus, our guidance provides a wide range of potential outcomes in the second half of between low and high single-digit growth.

Given that our long-term objectives are to grow new enrollments in the mid-single digits, the midpoint of this range would meet our long-term objective. Based on this, we anticipate that total online enrollments will end the year with a low- to mid-single-digit year-over-year growth. As Brian discussed earlier, hybrid growth will remain below our long-term objectives during the first half of 2023, but we're hopeful that we will start to see some acceleration beginning in the fall semester due to new site openings and the impact of the prerequisite initiative on the number of eligible students that can start in our partners' programs.

We estimate the effective tax rate in the last three quarters of 2023 will be 24.9%, 24.9% and 24%. The effective tax rate will be higher in 2023 than in 2022 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.

Assuming that a contribution of \$5 million is made in July of 2023, as was made in July of 2022, this would decrease net income by \$1.3 million in the third quarter of 2023 and increase net income by \$1.3 million in the fourth quarter 2023. But again, no decision has been made yet on this contribution.

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Our weighted average share guidance assumes that we purchased most of the remaining amount authorized by our board evenly over the rest of the year. The board continues to authorize the repurchase of shares as it believes the stock remains undervalued based on the metrics that 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 a few, if any, appropriate comps.

On an enterprise value to adjusted EBITDA basis, the stock is currently trading at roughly 12.5%, which is less than the recent S&P average of 16.4%, the average free cash flow yield for the S&P 500 of 2.8%, whereas the company's free cash flow yield is approximately 5.5%.

The guidance we have provided does not include any reduction in revenue or expense associated with the Dear Colleague Letter issued last year that I've discussed on previous call. However, it is likely that a number of our university partners' contracts will be adjusted prior to the fall term, such that we will no longer reimburse them for certain costs and thus we'll be reducing our revenue shift.

As a result, we do anticipate the fall term revenue and expense will be reduced, but cannot currently quantify these amounts. It is important to note that these changes made will not have a material impact on revenues and operating profit as the Dear Colleague Letter does not impact our relationship with GCU, as GCU provides all faculty for their course pays them and receives little or to no reimbursement from us or any other outside sources for the faculty costs and because the contract modifications are being made to make both parties' [ph] role. (00:30:56)

Last, as I get this question often, I wanted to highlight that the named executive officers have signed extensions of their employment agreement. Brian's agreement has been extended through June 2028.

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 Meuler with Baird. Your line is now open.

#### Jeffrey P. Meuler

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

Yeah. Thank you. For the hybrid pre-req initiative, I guess, have you had any students graduate from that program at this point? When do they apply for the ABSN experience, just like how much of a lag between completing the pre-reqs and enrolling an ABSN would you expect?

#### Brian E. Mueller

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

Well, when we – when they express interest in our program and we determine they need pre-requisite courses, how many there are that they need to take, we immediately begin a schedule in terms of how they'll transition to the ABSN program. So depending upon how many courses they need to take, will determine the schedule, will determine when they'll finish their last course, and then for most of them, they will begin very soon after that attending one of the sites that they selected even before they start their pre-reqs.

And so for many of the students, they will be selecting a site very near to their home. For some, they'll actually select a site that they'll move to, but all that work is done upfront. The evaluation of their transcripts is done and then we determine what courses they need. Course schedule is built. We have a lot of students completing courses. They're completing courses at a very, very high rate. They are one that we're very satisfied with. We haven't had a student complete them all and go into the [ph] – and maybe as their (00:33:32) program yet, but we're very close to that happen. And so the preliminary results have been very good and I can't underestimate how important that is.

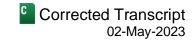
When you apply to get into a nursing program and it's determined you don't have the pre-requisites necessary, sorry to say this, but if they refer you to a community college, that could literally be a two- or three-year timeframe before you're going to get the courses you need. And if you don't select that route, the other routes are extremely expensive.

And so what we realized is that you can't expect a student to take out a massive loan to get the pre-reqs done, not knowing whether that will be successful and they'll actually get into an ABSN program. On the other hand, if we get students into an ABSN program, if we get them to the door, there's a universal 90% completion rate and a greater than 90% first-time pass rate on the entrance exam.

And so we absolutely believe that a centralized process, no matter where you are in the country, to enter into the correct pre-req courses, one at a time, eight weeks long, with lots of faculty and tutorial support will put us in a position to create a pool of those graduates who could step into the ABSN program. And we believe that's the key to reaccelerating the growth. And obviously, each quarter, we'll be providing updates on that. But what we're experiencing at this point is that the students are doing well in the course work, they're getting a tremendous amount of support and I think this is by far the most important part of adjusting to this market change.

And when you go back to the change, it's just the supply and demand in the labor pool. As you know, you've got a \$60,000 or \$70,000 a year job, and you've already completed your degree, you've already taken out sizable

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amounts of loans to do that, it's very difficult for that person to decide if they're going to quit their job, invest \$50,000 to \$60,000 and re-career in the nursing to make \$75,000 or \$80,000. And so there's no lack of interest in people wanting to be nurses, it's just that the market now has shifted to people who haven't already taken out massive amounts of loans to complete the degree and then are faced with doing that second time.

#### Jeffrey P. Meuler

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

Q

Got it. And then for the fall 2023 ground campus enrollment, I just want to make sure I'm interpreting the comments correctly. You gave us the new starts. I feel like there was a little bit of a caveat two to three months ago about registrations tracking behind. I guess has visibility on that front and trends on that front improved? And then this quarter, I don't know if this was a new caveat or not, but I thought there was a reference to like some uncertainty around retention of students from spring to fall and increased competition. So is there any reason to believe that retention could be lower this year?

#### Brian E. Mueller

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



No, retention is good. Retention is very good. We will come in with more than we budgeted for in terms of returning students to the campus. So that's really good news.

On the other front, things have changed dramatically in higher education with regards to traditional students. This has been coming, but COVID accelerated it. The reason we're saying between 10,000 and 11,000 students, and that's a wide range for us, usually we can target the number and be much closer. Our applications are up significantly. Our campus visitations, our one-on-one appointments with students and parents are up. What's lagging behind is the student's commitment to register.

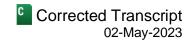
So they're not saying they're not coming, they're not committing to register. We have had a number of institutions visit us, well-branded private universities visit us within the last couple of months and explore potential relationships because they're looking at their fall numbers and they're seeing, I'm not going to say Armageddon, but this – what happened last year is probably going to be worse than this year for many institutions.

Students and families know that they're in a driver's seat now. Unlike in the past where you try to apply the schools you're interested in, hoping to get an acceptance and celebrate that, right now, what they know is that the thing is flipped and if they hold out, people are making increased offers in order to get them to attend their campus. We're not doing that. We don't think we have to do that. And we're still positive about how we fit into this whole situation because of our low tuition rate.

Parents and families, students are actually absolutely questioning the value of higher education if it requires \$200,000 worth of debt or even \$100,000 if you attend a state university. We think that as they get letters and deals submitted by other institutions, ours, as they have in the past, will look very favorable in addition to the fact that we've got over 40% of our students graduated in three years because of our dual-credit programs and all of that.

So we still think we – even though the trend is, [ph] a fewer high school graduates, a fewer (00:39:32) as a percent going to college, if you're questioning the value of higher ed, this is a very good investment because, number one, you're going to graduate with very little debt; number two, you're going to graduate in less years. And so it's a much lower risk proposition if you're questioning that. So we are hanging in there and expect that we'll still do real well in the end as compared to others.

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#### Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

And just to clarify that caveat, Jeff, you might recall this, we had a similar issue last year, but the university built 1,500 new beds. And if retention rates were flat as a percentage to last year, we could recruit for them 1,500 additional new students or 1,300, I think, roughly, additional new students this year than last year. Based on current registrations for continuing students, they're taking up the entire 1,500 additional beds.

Now, with that said, once students go home for the summer, we expect some attrition, as we've seen in the past. But right now, sitting here today, based on current – or prior trends, we will have a much higher retention rate than we projected or we've had in the past and continuing students will take up some of that increased bed situation that the university build, if that makes sense.

#### Jeffrey P. Meuler

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

Makes a lot of sense.

#### **Daniel E. Bachus**

Chief Financial Officer, Grand Canyon Education, Inc.

But from a total enrollment standpoint, it won't change the total enrollment. It'll just change the pieces between new and continuing.

#### Jeffrey P. Meuler

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

Yeah. Got it. Thank you.

#### Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

Yeah.

**Operator**: All right. One moment for our next question. Our next question comes from Jeff Silber of BMO. Your line is now open.

#### Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

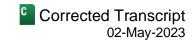
Thanks for sneaking me in. I apologize, I joined late. Brian, and forgive me if you mentioned this and I'm sure you did, you talked about the hybrid business being in a transitional year this year. At a high level, can you just review why that's the case?

#### Brian E. Mueller

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

Yeah. The market absolutely changed because of the slip in the labor market. Unemployment is so low that three or four years ago, most of the students where students have completed a baccalaureate degree, their careers were not going anywhere and they wanted to re-career into nursing. And so their transition into the program was pretty simple – much simpler because they had already completed a degree.

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Right now, you've got people making \$60,000 and \$70,000 a year, the first couple of years out of college. And it doesn't make sense for any of them to put their \$70,000 a year job and spend \$60,000 to make \$80,000. It's those re-careering post-bacc students have kind of dried up. Now that might change again if the employment situation changes, which it might.

But what's happened is that there's still a huge interest in people becoming nurses, but it's students that are at a community college or pretty new out of high school, they've earned 30 or 40 credits, maybe 60 credits and they haven't accumulated much debt. What we needed to do for them is create a very efficient way for them to get the science pre-req courses done so they can get into an ABSN program.

We needed to make the scheduling of those things very efficient. We needed frequent start times. So we've built those courses at GCU, and they quickly rose to 1,200 student in those courses. They're taking anywhere from two or three to as many as seven or eight science courses, chemistry, biology, anatomy, physiology, those courses, and they're completing at a high rate. We've reduced the situation significantly so most are paying cash. And they don't have the difficult decision of accumulating a lot of debt not knowing if I'm going to get in.

The reason we're very bullish on this thing going forward is how quickly the enrollments grew in those courses and how well the students are doing. The decision then to spend the \$50,000 or \$60,000 into a [ph] academic-driven (00:44:10) program is a pretty easy one, given the number of jobs in nursing, what they pay, et cetera.

And so the transition is mainly that. Now, there was a little bit of some sites opened later because of – in certain situations, in certain markets, we couldn't get the right number of clinical placements. So there was a little bit of that, but it mostly had to do with the uncertainty of how do I get those prerequisite courses done.

And so as that number builds, as students identify a site they want to go to, as they get into the prerequisites, we know after we bid their schedule, when the pre-reqs will be completed if everything goes well, and therefore, what program looks like, they'll attend when they finish it.

And so it's that transition that's taking place right now and we're extremely bullish on the fact that it doesn't matter where you are in the [ph] country now. (00:45:08) It doesn't matter what program you're interested in of our 26 different partners, you can come to GCU, you can do the programs, you can do the courses online, and you can do it in very efficient way.

#### Jeffrev M. Silber

Analyst, BMO Capital Markets Corp.

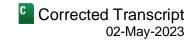
Okay. That's helpful. If I could shift gears to GCU online. Can you just give us an update in terms of acquisition costs? I know it's been a competitive market. You guys are doing a great job. But I'm just curious if acquisition costs have come down or how they're tracking.

#### Brian E. Mueller

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

When you look at us historically, and I know you know this, if you look at the five or six years, our acquisition costs, that's where we were getting margin expansion. Now, we've been in a position where they stayed pretty flat. It's – we haven't experienced the difficulties a lot have had. And mainly because 24% – we were 24% over this first quarter of this year over first quarter of prior year and it's starts that we have accumulated through our industry partnerships. That's taken the pressure off of our marketing plan immensely. And so where other people have had to spend more marketing dollars, which as you spend more, you get deteriorating results, we've been able to keep our actual advertising expense pretty much the same, slight increases, because we're getting the

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starts out of the school districts, hospitals, counseling centers, military bases where we are putting custom programs together to help them grow their account from inside.

I'll tell you, we have got so many partnerships now with school districts where we're taking paraprofessionals who are making \$25,000 a year, putting them into baccalaureate programs that lead to licensure that allow them to become full-time teachers at \$70,000 a year in some of the biggest cities in America, New York, Chicago, Philadelphia and Boston. I mean those are – it's a great story because it's really lifting people to a middle-class job, at the same time, it's giving human resource departments within large school districts an HR plan that they can count on and give them some level of predictability and it's a way for us to offer programs without having to buy lead.

So that's – so we really haven't had the issue that you probably heard from a lot of other groups.

#### Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Okay. I appreciate the color. Thanks so much.



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 very much.

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

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