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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. Thank you for standing by, and welcome to the Fourth Quarter 2021 Grand Canyon Education, Inc. Earnings Conference Call. At this time all participants are in a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions]

I would now like to turn the conference over to your speaker host, Mr. Dan Bachus, the CFO. Please go ahead, sir.

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 the call, and we recommend that all investors review these reports thoroughly before taking a financial position in GCE.

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

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

Good afternoon, and thank you for joining Grand Canyon Education's fourth quarter fiscal year 2021 conference call. 2021 has been a difficult year in higher education. Grand Canyon Education came through this year amazingly well as compared to the rest of the higher ed. More important, the overall trends predicted for 2022 in this sector continued downward, while Grand Canyon Education will resume its remarkably consistent upward...
trend for 14 years, and is positioned to do very well the next 10 years. COVID has had a negative short-term impact on all three of our pillars. However, long term, the negative impacts on the rest of the sector have turned into positives for GCE because of how it has positioned itself, especially the last three years. I will explain as I talk about each pillar individually.

First, the GCU traditional campus. Both the number of high school graduates per year and the percentage of them going to college has declined recently, and that has resulted in lower enrollments at many universities and community colleges. GCU's traditional campus actually saw an increase of 6.2% in new students over the prior year, an increase of 9.5% in total enrollment, and an increase of 36.1% in residential enrollment. The average incoming GPA of this year's class rose to 3.6, and the prestigious Honors College grew 8.4% to almost 2,800 students, with average incoming GPAs of 4.1. These are remarkable results given the overall trends.

The quality and especially the relevancy of GCU's academic programs, the low class sizes in support of its faculty who have less than a 2% turnover rate, the quality of counseling services, a new very modern campus that is ranked 18th in the country by niche.com, the 20 advisory boards with over 500 companies represented who are creating internships and employment opportunities for GCU students, and Phoenix as a destination city are all contributing factors. Having a very successful year compared to the majority of this sector, we still, however, are not performing to our full potential for the following reasons.

Number one, GCU continues to gain visibility across the country, however, its extremely significant value proposition is still relatively unknown. GCU relies heavily on a process called Discover GCU. We fly in at our expense thousands of students for one or two-day campus visit and house them at a residence hall designed for that purpose. Many students had selected other universities prior to the visit. In the 2020 school year, because of COVID, we were down 46% from our campus visit goal, yet still produced good results. This year, as the country is reopening, campus visits are up significantly over the prior year.

Number two, I didn't list this previously in GCU's list of advantages because I wanted to call it out separately due to how important it is. According to research produced by Jon Marcus in The Hechinger Report, college costs outpaced inflation by 28% at public institutions and 19% at private non-profit ones in the decade preceding the pandemic, according to the National Center for Education Statistics. But those relentless higher than inflation tuition hikes came to a halt in the fall, when the college boards reported that tuition rose at less than the consumer price index.

However, he finishes the report by listing all the universities who have already announced tuition, room, board and fee increases due to inflationary pressures for next year. In contrast, GCU has already announced for the 14th straight year no tuition increased. This has resulted in GCU's students taking out less debt than the highly subsidized state universities, and GCU's parent plus loan amounts are 50% of the three Arizona state universities. Number three, the city of Phoenix and the state of Arizona's economic outlook is very bright. Hundreds of companies are moving here, especially from California, and we estimate right now that approximately 80% of GCU's traditional graduates stay in Arizona post-graduation, partly because the career opportunities are so significant.

Number four, a growing segment of university enrollments in the country are first-generation college students. Of the approximately 9,000 new students at GCU this year, approximately 3,600 were first generation students. The first-gen college students this year had an average incoming GPA of 3.55, almost identical to the 3.6 of the overall class. Next year, we expect 4,000 of GCU's 10,000 new students to be first generation. The 7,600 first-gen students at GCU in two years alone is a societal transforming number, and a great reason to invest in GCE and donate to GCU.
The quality and relevance of our programs, the quality of GCU's campus facilities, the intense amount of faculty and counseling support, the number of campus jobs available to students, the percent of students graduating in three years, and especially the low price point all contribute to the success. Number five, GCU is able and prepared financially to build the campus out to 50,000 students, creating opportunity for GCE in this pillar for the next 10 years. We are targeting over 10,000 new students in 2022, and are making investments now to significantly increase that number in 2023.

Next, I would like to discuss GCE’s healthcare partnerships. Short term, mainly 2021, COVID had a negative impact. Hospitals were extremely busy and preoccupied with COVID patients and many clinical placement opportunities were cancelled. In spite of these very significant challenges, many instructional assignments requiring one-on-one clinical interaction in the hospital were replaced by simulations. Against significant odds, both the new and total enrollment numbers were hit for the year. I would call 2021 a successful year for this pillar given the challenges. 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 the next five years alone. Nursing programs are very expensive to operate, and given the financial pressures faced in many universities, they will be unable to invest the dollars it will take to scale the programs themselves. Number two, GCE has the capital to invest in a continued build-out to eventually 80 locations. Number three, in addition to the runway of 80 locations, up from current 31 locations, our enrollment budget for this coming year is only 50% of the actual spots that should be available currently. The 50% shortfall is due to the lack of efficient and highly supportive pre-requisite course environments, regulatory issues creating slowdowns in opening planned locations, and the lack of clinical placements due to COVID issues.

GCE is working hard in investing in new enrollment, stimulation, virtual reality and pre-requisite strategies to in the future fill a higher percentage of the current spots that are available. This is a transitional year coming out of COVID for the healthcare partnerships. However, there is a 10-year runway that is very promising that creates a winning scenario for students that want into a promising career, healthcare providers desperately needing professional nurses and universities who want a risk-free way to help solve the nursing shortage, while at the same time creating additional revenue streams. As all this is taking place, we will also be adding healthcare and non-healthcare programs to some of the existing locations.

Pillar three, working adult online students. When COVID first hit, there was an initial surge of working adult students returning to college as online students or re-entering if they were temporarily out. GCU online benefited from that surge. As the pandemic progressed, some potential students began questioning the ultimate value in investing in higher education. There was also talk of free community college and state university education by the new administration. In addition, many adult students that pursued high volume programs, like the RN to BSN program, were busy at work, taking care of COVID patients, or uncertain about the future and putting off starting school.

2021 definitely saw a downturn in working adults attending universities online, and we experienced that as well. However, as this market has become increasingly crowded the last five years, we have invested in B2B strategies that are well timed for this post-COVID period. The supply and demand for the educated labor has flipped. We are working on a daily basis with over 8,000 partners in K-12 education, healthcare, financial services, social service agencies, technology and engineering companies, military bases, etcetera, developing strategies that will help them grow their talent from inside. We are also building out state specific programs in certain licensure areas in creating pre-test prep options that can help employees gain licensure and progress up in their organizations.
This is all very innovative and hard work that most universities and OPMs are not capable of providing. This requires investment during 2022, but will set us up to get back to positive growth towards the end of the year and then sustain it for years to come. Both COVID and other market forces put some strain on 2021 results following 14 years of incredibly consistent upward performance. That said, we still outperformed both the higher-ed and OPM sectors at large.

In the post-COVID era, we are set up for another impressive run because in all three pillars we are tied very tightly to where the economy is going, where the huge talent deficits are, and can provide relevant, efficient and cost-effective paths for students across the adult lifespan to get there.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on 2021 fourth quarter, talk about changes in the income statement, balance sheet, and other items, as well as provide 2022 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 December 31, 2021 and 2020. The non-GAAP amounts exclude the tax affected amount of the amortization of intangible assets of $2.1 million in both the fourth quarters of 2021 and 2020, the reversal of the credit loss reserve of $5 million in the fourth quarter of 2021 and the write-off of deferred loan costs of $1.1 million in the fourth quarter of 2021, as a result of the credit facility payoff. As you recall, all but $2.5 million of the reversal of the credit reserve was included in our fourth quarter guidance, as at that time only 50% of the secured note had been repaid.

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 December 31, 2021 and 2020 is $2.11 and $1.89, respectively. Service revenue was generally in line with our expectations in the fourth quarter of 2021. As expected, the GCU online enrollment growth rate slowed in the quarter due to the items we have discussed previously. Fall semester traditional enrollments and hybrid enrollments were in line or exceeded our expectations.

Revenue per student continues to grow on a year-over-year basis primarily due to increased room, board and other ancillary revenues from traditional students as compared to the prior year, and the growth in the enrollment for hybrid students. Service revenue per student for hybrid 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, the partners have higher tuition rates than GCU, and the majority of their students take more credits on average per semester as they are in accelerated programs.

Including both our 8-K and 10-K filed today is a detailed explanation of the actual and anticipated impact of COVID-19 on all our university partners. Our effective tax rate for the fourth quarter of 2021 was 21.8%, compared to 22.1% in the fourth quarter of 2020 and our guidance of 21.2%. Our fourth quarter rate was slightly higher than we expected due to the impact of the continued growth in revenues outside the state of Arizona as a result of the growth in hybrid students.

GCU repaid $500 million of the secured note on October 29, 2021, and the remaining balance of the secured note of a $469.9 million was repaid on December 9, 2021. This has eliminated the interest income earned by us other than a small amount earned on our excess cash balances. As a result of this repayment, the $5 million loss reserve was reversed in the fourth quarter. As a result of the refinancing our credit agreement, which consists of a
term loan facility and a revolving credit facility, was terminated and the remaining term loan balance of $83.7 million along with the $30 million that was outstanding on our line of credit was repaid in early November. We wrote off $1.1 million in deferred financing costs at the time the credit agreement was canceled.

We repurchased 5,326,447 shares of our common stock in the fourth quarter of 2021 at a cost of approximately $443.7 million, and another 2,685,744 shares at a cost of $225.5 million subsequent to December 31, 2021. We have $369.9 million remaining available as of today. In January 2022, the board of directors increased the authorization under our stock repurchase program by $175 million, reflecting an aggregate authorization for share repurchases since the initiation of our program of $1.6 billion, as it once again committed to using a substantial portion of our projected net cash flows to purchase stock. We estimate that we will use the rest of the proceeds from the repayment of the secured note by mid to late March, and the remaining $175 million will be purchased over the rest of 2022.

Turning to the balance sheet and cash flows, total unrestricted cash and short-term investments at December 31, 2021 were $600.9 million. GCE CapEx in the fourth quarter of 2021 including CapEx for new off-campus classroom and laboratory sites was approximately $7.5 million, or 3% of net revenue, bringing the total for 2021 to $28.9 million. This was less than $30 million to $35 million that we had predicted primarily due to delays in spend on new sites that we had hoped to open in 2022. We anticipate CapEx for 2022 will be between $30 million and $35 million.

Next, I'd like to provide color on the guidance we have provided for 2022. The guidance that we have provided continues to be non-GAAP as adjusted net income and as adjusted diluted income per share as we exclude amortization of acquired intangible assets. Consistent with the prior year, we have provided ranges for revenue, operating margin and earnings per share for each of the four quarters of 2022. We do this because our financial results are seasonal. The high end of our revenue range assumes the following; GCU ground enrollment will grow to 21,304 in the spring, 6,560 in the summer and 25,551 in the fall. This includes GCU's hybrid students.

The ground enrollment growth rate continues to be pressured by significant decline year-over-year in professional study students, working adults to take courses on ground primarily at GCU's traditional campus as we did not have entry points for these students for over 18 months due to COVID. Residential students are projected to grow to 14,500 in the spring and 16,700 in the fall. We are hopeful that new online enrolments will be down only slightly year-over-year in the first quarter compared to a very tough comp. But the high end of our guidance assumes we will return to new enrollment growth in the second quarter of 2022. Thus we are hopeful, total online enrollment which began the year down 5.5%, will return to positive year-over-year growth in the second half of 2022. The high end of our guidance assumes that the accelerated bachelors in nursing revenue (sic) [enrollments] at off campus classroom and laboratory sites will grow in the mid-teens year-over-year, while occupational therapy enrollment will stabilize in the second half of 2022, such that it will be roughly flat year-over-year by the end of the year. Revenue and enrollment in 2022 will be slightly impacted by the planned closing of the two sites in Florida. This was a joint decision with Utica College to allow them to focus their resources closer to their home location in New York.

Pending regulatory approvals, we will be opening a new location with them in the Albany market, and we'll consider other partnership opportunities in Florida. The low end of the revenue range has generally the same enrollment assumptions for traditional campus enrollments, but assumes lower online enrollments if the recruitment challenges caused by COVID closures remain, and if we are required to lower hybrid enrollment further due to clinical capacity issues at both new and existing sites as a result of the nursing shortages.
On the expense side, as Brian discussed, we are making significant investments in 2022 for expected future growth, and that along with year-over-year changes in the timing of spend will have a negative impact on margins. We have restarted hiring in which head count has mostly been flat since March 2020 for expected future growth, which will drive increased compensation costs in technology and academic services and counseling services and support costs. We’re also budgeting for a significant year-over-year increase in travel and employee benefits as those amounts were significantly lower than pre-COVID levels in the prior year.

We’re also budgeting for increased clinical cost at offsite locations due to the nursing shortage, and the year-over-year difference in the timing of new site openings, all new sites in 2021 were opened in the first half of the year, whereas nearly all new sites opened in 2022 will be in the second half, will have a negative impact on both revenue and expense. We do not plan to have any material interest income or expense. We believe the effective tax rate for the fourth quarters of 2022 will be 25.3%, 24.8%, 24.8% and 24.4%.

The effective tax rate will be higher in 2022 than in 2021, because rather than having a significant excess tax benefit deduction in the first quarter, like we have historically, given the current price of the stock, and thus what the restricted stock granted in previous years will most likely vest at, we will incur expense in the first quarter of 2022 on vesting not a deduction. In addition, as revenues continue to grow at the offsite locations outside of Arizona, our tax rate increases.

These estimates also do not assume a contribution in lieu of state income taxes, but if one is made, that will increase G&A expense in the first quarter and decrease the effective tax rate in the second half of the year. Had our effective tax rate and our guidance been 21.8% which is where consensus estimates for our effective tax rate is, it would have increased our guidance by $0.24. As I mentioned earlier, our weighted average shares guidance assumes that we complete buying back the roughly $1.2 billion in stock previously committed by mid to late March and that we repurchase the $175 million authorized by our board evenly over the rest of the year.

Last, on behalf of the board, I'd like to address their thinking about our current stock buyback program. The primary reason the board is being so aggressive in its stock buyback activity is that it believes the stock is considerably undervalued. A couple of the key metrics that the board looks to to make this determination is the ratio of enterprise value to adjusted EBITDA and the free cash flow yield rather than 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 trading at roughly $8, which is approximately half of the recent S&P average. The free cash flow yield for the S&P 500 rose from 1.2% in the third quarter of 2020 to 1.9% in the fourth quarter of 2021, whereas the company's free cash flow yield is approximately 9%. Another reason the board is moving forward aggressively with a buyback program is because this management team has a 30-plus year track record of being ahead of the curve in the education industry, innovating in an environment of constant change and consistently delivering for our university partners and their students, resulting in strong outcomes for all stakeholders.

The board is confident that this team will continue to tackle the short-term challenges to our business that has been caused by COVID. In the 1990s, this management team successfully pioneered high-quality education online, and they have continued to strengthen the quality and quantity of programs that its university partners offer. In 2008, this team had a vision to invest heavily in a struggling traditional campus in West Phoenix that it believed could serve all those seeking an affordable Christian education, and today, Grand Canyon University is a thriving institution that impresses all who step foot on its campus. We are proud of what GCU has become and are happy it could return to its roots as a financially viable non-profit university.
Prior to the onset of COVID, we had a track record of over 40 consecutive quarters of exceeding expectations. Unfortunately, COVID has impacted our business for longer and in ways we did not accurately forecast, and thus we understand that there is some uncertainty about near-term results. However, the difference between the top and bottom of our range is fairly small, the company will continue to grow revenues and remains highly profitable, and we are confident in the long-term strategy that Brian has laid out and his plans to achieve those goals, including the investments that will be made to reaccelerate our growth. So the board is committed to continue to use a substantial portion of our annual free cash flow to buy back stock as long as it believes the stock is undervalued.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] I'm showing, we have a question coming from the line of Jeff Meuler with Baird. Your line is open.

Jeffrey P. Meuler
Analyst, Robert W. Baird & Co., Inc.

Yeah. Thanks. Apologies if you gave it, but I didn't catch it. What was the online new enrollment growth in Q4? And can you talk through digital versus partner channel trends? And assuming that the Q1 outlook, I guess, at the high end for only down slightly reflects improvement from that, just what are you seeing, if that is improvement to make those comments? Thanks.

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

Fourth quarter was just a little bit worse than third quarter in terms of new enrollments, but January looks good as we anticipated. We anticipate that we will be down against a tough comp, but far less than we have been in the third and fourth quarters. And we also expect that to be true for the entire first quarter. From a digital perspective, we are doing well, we are not seeing an increase on lead costs. If you compare what we do to other players in the industry, we just have so many academic programs that are delivered online, and we're able to move money around depending upon where we can get the most efficient leads. And in order to get new enrollment growth, we haven't had to add significantly to our online spend because we've transitioned more to working with the 8,000 partner institutions.

Right now, we are trending in January for our outside people to be delivering a little over 70% of what they did at their historical highs before COVID, which is a extremely positive trend from our perspective. The country is not completely reopened, although it is reopening faster than it had been. And so that 70% number is a good number for us, extremely encouraging. It was below 50% during the worst parts of COVID. And so our digital online lead system is doing well. We're not seeing the increase in cost per lead that others are because of our abilities to spread our spend across such a large array of programs. And we're very happy with what's going on, on the outside, and it's particularly encouraging because we're so well received. Everybody is having a significant talent shortage.

This thing has really flipped. And hospitals can't get professionals, school districts can't get teachers, military bases can't get cybersecurity experts because they can't compete. Social service agencies can't get social workers, and our abilities to take people that are operating at a lower level in all those organizations, get them in
cohort groups and get them moving towards licensure is going to be – is and is going to continue to be a very successful B2B strategy that's differentiating us and it's very difficult to replicate because the investment that you have to make in the people. But that investment in people long haul is extremely significant from a profitability perspective because you don't have to buy [ph] and leave (28:52). And they are creating things that are very, very well received by businesses that are in this current environment where there is this huge lack of talent.

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

Jeff, the only thing I would add on the fourth quarter new enrollment is that, October, November, December is not a typical go back-to-school time, and so the numbers are little bit misleading. We had a really, really, really because of COVID a really strong fourth quarter of 2020. And so it's not really a great indication of how things are trending. Our thoughts on the first quarter of 2021 is a much better example of how new enrollments are trending from an online perspective.

**Jeffrey P. Meuler**  
*Analyst, Robert W. Baird & Co., Inc.*

Got it. And then on the expense base, hopefully, you get the gist of the question, but is there a way to kind of break out how much new initiative spend there is, because it sounds like there's also just some need to resume hiring, some normalization of T&E, but then there were some comments about, like what sounds like a step function and initiative spend, and some of that sounds like it's in the partner channel, just if I'm characterizing that correctly. But if you can help me understand like how much is normalization, how much of this is like net new initiatives and the spend against it.

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

I would probably say about half is initiative spend and half is getting caught up in the last few years. I don't know if that's exactly how you're thinking about it. But when I look at and obviously the increased spend gave a lot of heartburn to all of us. But when you look at it by the actual categories, it's a lot of things like benefit expenses being up significantly, that's just the trend that started in the tail half of 2021. It's continued through January, and we expect to continue. Travel, we basically cut off travel, as you know, for a long, long time, It started to come back in the second half of 2021. So a big piece of the travel is just the continuation of that. But another big piece is the initiatives Brian has talked about, which are new. And so there's kind of a mixed bag in all of this. As I mentioned before, we haven't really added heads across the company since March of 2020. And it's time to get caught up to where we should have been had COVID never happened. And so it's probably about half and half.

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

I would just add, Jeff. This might be a good time to say, we are – and you probably noticed it, we have for a long time been talking about 40,000 students on our campus. Today, I said 50,000. Number one, we're understimating what we're capable of given the other trends in higher education with students who come here for three or four years. But we also are working on a fourth platform. And I don't want to say much about that platform right now, but it's a response that we're making to a whole bunch of companies who have come to us and said that they've got significant talent needs in certain areas and people just aren't scaling to meet those needs and what we consider doing it. So you'll hear more about that fourth platform over the course of the rest of the year.

**Jeffrey P. Meuler**  
*Analyst, Robert W. Baird & Co., Inc.*
Got it. Look forward to that. And then just the last one from me, you gave us a metric that I just didn't understand, and I want to make sure that the investing community [indiscernible] (32:50) I think it's important. The 50% of spot in terms of like the enrollment budget at Orbis programs, just what exactly was that metric?

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

So if you think about what our new enrollment goal for the university healthcare partnerships, it's around 4,000 for this upcoming year. If every single one of the locations that we were planning had been built out fully, and if there were no issues with regards to clinical placements, we could actually have put in almost 8,000 students. And the third thing that is a little bit of a wrench in that whole thing is, there really is not an efficient operator from a pre-requisite perspective. There are some people out there that our partners send, there are students who are trying to qualify to get into the program, too, but none of them come close to offering the quality of online instruction, the level of support, the level of faculty that are really necessary to get students successfully through the difficult courses that are in that pre-req situation, the sciences, biology, chemistry, anatomy, physiology, and all of those things.

And we intend to be a major player because I don't think there's anybody better in the world at doing that than we are. And so if we make those improvements as we open up new locations, that the – we'll be concentrated on two things; one, hitting the optimum number in our current number of locations and then opening up new locations. And so we've got opportunity, the good news is that we've got considerable opportunity for growth in both those areas. And given the revenue per student of those students and given the retention rate of those students, once they're in the nursing program, and the first time pass rates on the NCLEX exams, that's an extremely exciting thing to consider, both because of the needs that this country has and also because of the returns that's going to provide for GCE. It's going to be considerable.

Jeffrey P. Meuler  
Analyst, Robert W. Baird & Co., Inc.

Okay. Thank you.

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

Yeah.

Operator: Our next question coming from the line of Jeff Silber with BMO Capital. Your line is open.

Jeffrey M. Silber  
Analyst, BMO Capital Markets Corp.

Hi, good afternoon. This is Ryan Griffin on for Jeff. I just was wondering with the majority of students back on campus during the quarter, to what extent are the incremental revenues from room and board factored into the updated guidance? Thank you.

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

It's factored in. We are very excited about how things are progressing on the campus and how those type of – room and board primarily is coming out at the university. There are some revenues that the university historically have that they don't currently have and currently don't have plans to have those revenues in the future for various
Brian E. Mueller  
Chairman, President & Chief Executive Officer, Grand Canyon Education, Inc.

I'm glad you brought that up because the trends nationally with less high school students graduating and less as a percent, Arizona is one of the states, that is going to college, it's because people are really, really questioning the value of a considerable investment in higher education with so many jobs out there. But when you have a chance to come onto a campus like this, graduate in high-end programs with very little debt, many students because of dual credit in our partnerships graduate in three years, and then the exciting employment opportunities – we just met with a major Taiwanese chip factory that's building a huge factory in North Phoenix, they're going to need 10,000 people. They're hiring our electrical engineers like crazy.

It's just, for all of the reasons people are questioning investing in higher-ed as an 18-year old student, we present an alternative that is very inviting. And so when we say 10,000 new students in 2022, but we're really trying to set ourselves up for a much higher number than that in 2023. The momentum is just so strong for what we have here, that it's going to be a big part of the story, and it's becoming a big part of the economic story of Arizona, because the first thing companies want to know is what is the talent pipeline that's coming out of the universities. And our growth is creating a lot of excitement for the companies that want to move here.

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

I want to correct one thing. Just going through my notes, to Jeff's question, about a third of the expenses are kind of historical catch-up, and about two-thirds are new initiatives. So I said 50/50; that's not quite correct. I apologize.

Jeffrey M. Silber  
Analyst, BMO Capital Markets Corp.

Got it. And then as my follow-up, I was just wondering, are there any incremental one-time costs or expenses built into the 2022 outlook?

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

No, I don't think there's any what I would say one-time costs. As we just talked about, I'd say there's some catch-up costs from historical perspective, which is about a third of the increase. The rest is, I don't know if I recall one-time costs, but the costs associated with opening new offsite locations, that as you all know, that costs about $2 million in OpEx spend in the year that it opens, and we incurred a lot of expense related to the 2021 openings in 2020. But there was very little in 2021 because most of the locations are going to be opening in September. There was a little bit in 2021, but not nearly what you would expect. And so there's not a good apples-to-apples comparison from that perspective and then head count increases, et cetera. So I don't think there's any one-time costs.

Jeffrey M. Silber  
Analyst, BMO Capital Markets Corp.

Got it. Thank you.

Operator: Your next question is coming from the line of Phillip Leytes with Berenberg. Your line is open.
Phillip Leytes  
*Analyst, Berenberg Capital Markets LLC*

Hey, guys. Thanks for taking my question. [indiscernible] (40:40) a little bit more on Orbis. What are you expecting at the nursing enrollment in 2022? And I recall on the prior call you had some delays of opening key locations. Are there any updates on maybe when those locations can be opened?

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

So we think that Orbis will have enrollment, and again, this includes all -not Orbis, but offsite campus locations, classroom and laboratory locations, will have around 5,000 students by the end of the fourth quarter. Again, you’ve got ABSN growing at a very nice clip, and you’ve got occupational therapy, which this year was down 40-some percent from the previous year. We’re hoping that will level off by the end of 2022. So you should have that.

In terms of new locations, we’re still working through the regulatory side of things in California, both in the Northern California, Southern California, in Seattle, in New York City. We’re hopeful that we’ll get the approval to start working towards opening those locations. So we’re hopeful that those locations will open in 2023. They are not in the 2022 guidance.

Phillip Leytes  
*Analyst, Berenberg Capital Markets LLC*

Got you. That's helpful. And one more from me. On the cost increases, I know there’s some questions, but I just want to understand like what type of hiring are you planning to do? And 2023, would that be a lower margin year relative to 2022 based on the comment you guys have provided so far?

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

I think 2023 will be a more normal year from a margin standpoint. I mean, obviously, we’re looking way out in advance here. But I think the investments that we are making in 2022, we expect to be getting the benefits from a revenue standpoint in 2023. Will margins as a whole increase? I think, that will be very dependent on the timing of new offsite campus locations openings and the growth of that business as a comparison to the business as a whole. But it shouldn't be another stair step like what you're seeing this year. Like we’ve talked about this year's expenses are partially impacted by lower expenses from the last almost two years, us feeling comfortable enough to begin the hiring, begin the traveling, all that, to re-accelerate growth, and then some of these investments that we think will really start paying off in 2023. Anything to add, Brian?

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

Yeah. Another way to think about that is that, if you look at the industry, what's really hurting people is the cost to acquire a student. Everybody is talking about increased lead cost, and they're basically trying to get more out of what is a very crowded environment that has been – the metrics have been deteriorating for years. And I think it's been exacerbated by COVID. We've been planning for this for four, five years now, and we're responding to employers that need to grow their talent from within. That requires us to increase the hiring of those outside people to do that really important work.

And so we have to hire them and we have to pay for their travel expenses. And we are continuing to spend on the digital side. But as they get up and running, and we already have evidence that this was coming back in a really strong way, as they get up and running, the cost to acquire a student from their perspective has historically been
way less, and the quality of the students, there has been much – they recruit a lot higher percentage of graduate students. And so we think that the investments we're making there, while we're continuing with our digital strategy, over the course of this year will set us up to be in a very strong place in 2023.

And if you look at us historically before COVID, our margin expansion continued – quarter-after-quarter we got margin expansion from lowering the cost to acquire a student. And I think if you're somebody in this industry that can't do that, if you can't through programmatic expansion, through partnerships, through specialized strategies, if you can't lower your cost to acquire a student, it's going to be very difficult to last in this place. And that's why I think we're in a very strong spot, because I think we can do that. But it's going to take a little bit of investment in 2022 for us to set that up.

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

One other comment I want to make real quick about off campus location student, the hybrid students, because of the anomaly of not having any starts in the fourth quarter but having graduations, the enrollment big number tops out, and I want to make sure everyone understands this, at the end of the third quarter. The end of the third quarter, we're projecting to be just under 6,000 students. So when we talk about that 5,000 that might seem low, but it's the anomaly of no starts in the fourth quarter, but graduations. Operator, I think, if we have one more question.

Operator: Our next question coming from the line of Alex Parrish with Barrington Research. Your line is open.

Alexander Paris  
Analyst, Barrington Research Associates, Inc.

Hi, guys. I just have a quick kind of wrap-up question. Very thorough call as usual. Just with post licensure nursing in the news a lot here lately, with some of the other publicly traded players, pressures on enrollment due to working nurses not having the time to continue their education, RN to BSN programs and so on. What percentage of your nursing students at GCU and/or at Orbis partner programs are post-licensure?

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

So if you look at online students, roughly 30% of the students are in nursing or other healthcare programs, with the vast majority of them being in what you're talking about, the post-licensure programs, RN to BSN, masters in nursing, et cetera.

Alexander Paris  
Analyst, Barrington Research Associates, Inc.

I got you. Okay. So RN to BSN, as well as the graduate programs like masters and so on.

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

Yeah, [indiscernible] (48:06) I say that wrong, RN to BSN and masters in nursing. But also we have a doctorate. The university has a doctorate in nurse practitioner as well, which I think would fall into that category you're referring to.
Alexander Paris  
*Analyst, Barrington Research Associates, Inc.*

And then of the hybrid programs, which we formerly – those are all pre-licensure?

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

Those are all pre-licensure or OTA. And this year there will be some medical lab sciences students. So yes, no post-licensure.

Alexander Paris  
*Analyst, Barrington Research Associates, Inc.*

Okay. Great. That’s good for me. Thank you.

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

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

Operator: Ladies and gentleman, that does conclude our conference for today. Thank you for your participation. You may now disconnect.