03-Aug-2023

Grand Canyon Education, Inc. (LOPE)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the second quarter 2023 Grand Canyon Education earnings conference call. At this time, all participants are in a listen-only mode. After the speakers presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Dan Bachus, Chief Financial Officer. 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 second quarter fiscal year 2023 conference call. GCE had a very good quarter exceeding enrollment expectations by producing new starts that were approximately 20% over prior year and also producing greater than expected retention numbers.

Exceeding revenue guidance estimates at midpoint by $3.1 million and producing a $0.11 beat in adjusted diluted earnings per share to consensus. An article that recently appeared in Fortune magazine titled The Labor Shortage Is Pushing American Colleges Into Crisis with the plunge in enrollments, the worst ever recorded. Author Collin Binkley says the following. Nationwide, undergraduate college enrollments dropped 8% from 2019 to 2022, with declines even after returning to in-person classes, according to data from the National Student Clearinghouse. The slide in the college going rate since 2018 is the steepest on record, according to US Bureau of Labor Statistics. Economists say the impact could be dire. Fewer college graduates could worsen labor shortages in fields from healthcare to information technology. Grand Canyon Education and its 25 university partners are experiencing significant growth in spite of declines in the overall market and that growth will continue for the reasons I will explain as I review the four platforms we use to deliver higher education.

First, the online campus at Grand Canyon University. New starts were up approximately 20% over the second quarter of the prior year, and total enrollment has returned to positive growth again at 4.1%. There are many reasons for this, but I want to highlight four. Number one, we have stayed hyper focused on opportunities that exist in today's labor market and since the beginning of the pandemic, have rolled out 66 new programs, emphases and certificates across the 9 colleges at GCU. These programs are tied directly to labor market opportunities for students and accounted for 10.8% of the new students that started in the second quarter. One of the responses of universities to the declining enrollments during the pandemic was to reduce the number of programs they offered.

Number two, we continue to work with employers directly to address their workforce shortages. This effort has focused on the industries of education, health care, technology, public safety, and the military. In the second quarter, 31% of the new starts came from that work. Number three, the retention of students in the second quarter went up 20 basis points, which we believe continues to improve because of the relevancy of the programs the students are entering. Number four, GCU has resisted responding to the slower growth during the pandemic by raising tuition, which many institutions have done.

[ph] Online (04:22) net tuition increases since 2018 have averaged approximately 1% per year. Second platform, the GCU Ground Campus for traditional students. There is a clear trend here that we are uniquely positioned to respond to. Working adult students post-pandemic are more inclined to work from home and to do higher education from home. This is now becoming a trend for traditional age students as well. We have been projecting between 10,000 and 11,000 new students for the GCU Ground campus for the fall of 2023.

We will be greater than the 11,000 number. But with approximately 9,000 new students coming to campus and greater than 2,000 traditional age students starting GCU programs online between April and September. These students may come to campus eventually or may do the entire program from home. The greater than 2,000 students are traditional age students, but we are currently counting them in our online campus numbers.

They accounted for about 6% of our approximately 20% increase in new starts in the second quarter at the online campus. This will slightly impact our room, board and other auxiliary revenue attributed to ground students, but be offset by increased revenue due to higher than expected overall student counts.

Third, Grand Canyon Education's hybrid campus had a decline in enrollment year-over-year of 5.2% in the second quarter. However, the hybrid campus is definitely turning the corner. We are now projecting new fall enrollments to be up in the mid to high single digits year-over-year and we expect the growth rate in spring 2024 to be even higher.

There are two main reasons for this. Number one, all but one of our active ABSN partners have responded to the younger students interested in ABSN programs by admitting advanced standing students this fall or are in the process of making that change. This is up from only 11, one year ago. Students with partially completed degrees, having accumulated a great deal of debt and are very interested in nursing careers, but didn't have an efficient way to earn the prerequisite science coursework. GCU created the science courses and some other gen ed courses, so they could be delivered online in eight weeks. Students can access these courses from anywhere in the world. There are start opportunities almost every week.

These courses have been made very affordable, are taught by experienced faculty. Class sizes are low and there's a tremendous amount of academic support, including an artificial intelligence project going live in September that will provide students 24/7 access to tutoring.

Since we implemented these courses, we have already enrolled 3,068 students. We have a waterfall report that allows us to know how students are progressing through their prerequisite courses and when they will be eligible to start at one of our ABSN sites. The success rate of students who successfully enter our ABSN programs is 90%, and the first time pass rate on the NCLEX exam remains approximately 90%. We now have an extremely efficient way to get students academically eligible and prepared to enter the programs. We are seeing positive results as we look at third quarter enrollments and believe it will get better from there.

Fourth platform, the Center for Workforce Development at Grand Canyon University. In the 2022-2023 school year we started 80 students in electrician pre-apprenticeship program in partnership with companies that are experiencing labor shortages in that area and are excited about hiring our graduates. The program consists of four four-credit courses and runs one semester. 74 students successfully completed the program. This upcoming school year we will start 220 students in the program and expect the same results. This fall we also start 20 students in a manufacturing certificate program. GCU is running a small parts manufacturing business on campus that is doing work for some of the major companies in Arizona. These students will go to school for 20 hours a week and then work in the facility as a paid employee for 20 hours. At the end of the semester, they will receive a manufacturing certificate and be eligible for employment in Arizona's fast growing manufacturing industry.

GCU's growing Engineering College will also have students assisting with this project. Once this concept has been successfully proved out, we expect to work with GCU to scale this program and then add others. I started out talking about the fear that exists around future labor shortages in key industries as a result of declining enrollments in higher education across the country. 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 140,331 students, 38,722 in education, including 19,042 first time teachers at a time when teacher shortages have created a national crisis. 39,590 in nursing and health care professions, including 1,939 pre licensure nurses, at a time when there was a huge shortage of nurses. 26,905 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 24,179 graduates. The College of Science, Engineering and Technology has grown by 187%, and provided 5,291 graduates. The Doctoral College, Honors College and College of Theology also continue to grow. The numbers that I have just cited have all happened in the five years since GCU has become a non-profit institution and GCE has become an education services provider.

Service revenue was $210.6 million for the second quarter of 2023, an increase of $10.8 million or 5.4% as compared to $199.8 million for the second quarter of 2022. The increase year-over-year in service revenue was primarily due to an increase in GCU enrollments of 4.1%, and an increase in revenue per student year-over-year.

Operating income for the three months ended June 30, 2023 was $35.4 million, an increase of $1.6 million as compared to $33.8 million for the same period in 2022. The operating margin for the three months ended June 30, 2023 was 16.8%, compared to the 16.9% for the same period in 2022. Net income increased 13.3%, to $29 million for the second quarter 2023, compared to $25.6 million for the same period in 2022. GAAP diluted income per share for the three months ended June 30, 2023 is $0.96. As-adjusted non-GAAP diluted income per share for the three months ended June 30, 2023 is $1.01.

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 June 30, 2023 and 2022. The non-GAAP amounts exclude the tax effected amount of the amortization of intangible assets of $2.1 million in the second quarters of both 2023 and 2022 and the tax affected amount of losses on fixed asset disposal of $0.1 million for the three months ended June 30, 2023. 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 June 30, 2023 and 2022 is $1.01 and $0.85 respectively.

Service revenue was higher than our expectations in the second quarter of 2023 due to higher GCU enrollments and the higher than expected ancillary revenues at GCU. Hybrid revenues were in line with our expectations.

The hybrid enrollment growth rate is being impacted on a year-over-year basis, due to the timing of site openings and a decline year-over-year in the enrollment at some of the mature sites due to the 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 enrollments between years, which is 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, the partners have higher tuition rates, and the majority of their students take more credits on average per semester as they're in accelerated programs.

The increase in revenue per student was also positively impacted in the second quarter of 2023 by year-over-year difference in the timing of the GCU traditional campuses spring semester such that $4.5 million shifted from the first quarter to the second quarter as compared to the last year. Our operating margin was higher than our expectations, primarily due to higher than expected revenue. As I discussed on prior quarters' earnings calls, we have been aggressively hiring in which head count had been mostly flat since March 2020 to meet our partners expected future growth, which is driving increased compensation costs primarily in counseling services and support. We also planned for a significant increase year-over-year in travel and employee benefits as those amounts were significantly lower than in pre-COVID levels in the prior year.

We also planned for increased clinical costs at off campus classroom and laboratory sites due the nursing shortage. The spending has generally remained in line with our expectations. Our effective tax rate for the second quarter of 2023 was 23.8%, compared to 25.2% in the second quarter of 2022 and our guidance of 24.9%. The second quarter 2023 effective tax rate was favorably impacted by the resolution of some state income tax audit.

We've repurchased 418,432 shares of our common stock in the second quarter 2023 at a cost of approximately $45.3 million and another 128,013 shares were repurchased since June 30, 2023. We have $102 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 shares. But share repurchases in future years will be less than in 2021 and 2022, as we've 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 June 30, 2023 were $233.4 million. GCE CapEx in the second quarter of 2023, including CapEx for new off campus classroom and laboratory sites was approximately $9 million or 4.3% of service revenue. We continue to 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 we have provided in the outlook section of our 8-K filed today is GAAP net income and diluted income per share with the components to adjust the GAAP amounts to non-GAAP as adjusted net income and non-GAAP as adjusted diluted income per share. In addition, as requested by a number of investors, we have included in the guidance section of our 8-K filed today the non-GAAP as adjusted diluted income per share estimates.

We have updated full year 2023 guidance to include the second quarter revenue and earnings beats. As I will discuss in more detail in a minute, we have narrowed the revenue and operating margin ranges for the third and fourth quarters and have raised the revenue guidance at midpoint in the third quarter and slightly lowered it in the fourth quarter.

Excluding the contribution of in lieu of state income taxes paid in July, we have lowered expenses for each of the last two quarters and we have updated other income, the tax rate and weighted average shares outstanding amounts for the second half of the year, which has resulted in an $0.11 increase in EPS estimates for the second half of 2023 at midpoint, a $0.22 increase in full year EPS estimates at midpoint from the estimates we provided last quarter and a $0.30 increase in full year EPS estimates at midpoint from the original 2023 estimates.

As Brian, mentioned earlier, we anticipate total enrollment to be higher in the second half than our original estimates, which should result in higher than expected tuition revenue in both the third and fourth quarters. The second half revenue will be negatively impacted by slightly lower ancillary revenues at GCU, as Brian discussed, and slightly lower hybrid revenues due to contract changes going into effect that I discussed on prior calls which we will no longer reimburse some clients for certain costs, and as a result have agreed to reduce the contractual revenue share percentage.

The delay in the opening of the Southern California location also will impact hybrid revenues in the second half of 2023. But we anticipate exceeding our revenue expectations at the GCU locations and some of our other partners, which will help offset the reduction in hybrid revenues. These items all impact both the third and fourth quarters, but have a much bigger impact on the fourth quarter than the third quarter as they are – all of them go into effect with the start of the fall term.

Online new enrollment growth should remain above our long term objectives in the second half of 2023, but due to much more difficult comps, the growth rate will decline from the growth rates in the first half of 2023. As Brian mentioned, the new hybrid enrollment growth rate should be in the mid to high single digits in the fall semester and should accelerate even more in the spring semester. Other than the reduction in expenses associated with the contract changes, the delayed opening in Southern California and the contributions in lieu of state income taxes of $3.5 million paid in July 2023, there have been no material changes on our expense expectations for the second half of 2023. The contribution in lieu of state income taxes is a tax credit and thus has no impact on second half net income but does increase G&A expense in the third quarter and decreases the effective tax rate in the second half of the year, roughly 75% in the third quarter and 25% in the fourth quarter.

As a result of this and a tax refund received in the third quarter of 2023 we have lowered our effective tax rate for the last two quarters of 2023 to 18.6% in the third quarter of 2023 and 21.3% in the fourth quarter. Our weighted average shares guidance assumes that we purchase 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 it uses to evaluate, including the ratio of enterprise value to adjusted EBITDA and the free cash flow yield rather than the multiples of other education companies as although we can be viewed as being in the same sector, there are few, if any, appropriate comps.

On an enterprise value to adjusted EBITDA basis the stock is currently trading at roughly 11, which is less than the recent S&P average of 16.4, and the average free cash flow yield for the S&P 500 of 2.8%, whereas the company's free cash flow yield is approximately 6.1%.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now conduct the question-and-answer session. [Operator Instructions] . Our first question comes from Jeff Meuler with Baird. Please proceed.

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

Q

Yeah. Thank you. Just maybe to make the guidance a little bit more apples-to-apples before we can – so we can better like assess some of the other changes. Can you just help us [ph] stand (21:24) with the changes in the contract structure around the reimburse costs? Just roughly the sizing of that impact?

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

A

Yeah. When you take the impacts, unexpected impacts, including the contract change and the delayed opening of the Southern California, it's approximately a $2 million reduction in revenue and expense.

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

Q

Okay. And Brian, the dynamic around the traditional age students electing to start online instead of on the campus, just anything you can say about the geography of the students, like is this mostly dynamic with [ph] non-

Arizona (22:12) students, or is that not the case? And then how does it impact from the university perspective, plans for how you're thinking about campus expansion over the next few years?

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

A

Yeah, it's going to be very interesting because I talked about America changing, and it really is the desire of people to work from home, to educate their kids closer to home, to go to college closer to home. That's part of what's going on. There are a lot of students out there that are -- they have part time jobs, as high school students are making really good money, $20, $22 an hour and inflation has definitely impacted middle class families. And so when they see an opportunity to maybe finish their degree program from home in two or three years, keep their part time job, maintain the friendships and church relationships they have, and those kind of things that becomes attractive to them.

There's something else happening, though, that I didn't talk about, which is there's a lot of panic out there with universities, and they're making incredible, they're offering students incredible deals, deals that [ph] unless they can (23:30) significantly change their cost structure, expense structure, they're not going to be able to give those deals out again, second and third and fourth year. And so it's going to be interesting to see what happens about halfway through the second semester of next year when students find out the deal they got their freshman year, they're not going to get their second year.

We didn't fall into that temptation. We're very transparent. We offer the student a deal that's very specific to what their grade point average is. And so as a result of that, we may have missed out on some students that otherwise we would have gotten. So how long is that going to last? I don't know. This is such an attractive place to be for a lot of reasons. Arizona's economy is growing so fast. Our programs are extremely relevant. 50% of our students almost are graduating in three years. They're graduating with less debt. And so when we get through this period of time where this panic is going on, we'll see how things level out next year. The good thing for us is that we are uniquely positioned. If this continues the way it is, we can continue being very successful, offering students an opportunity to do this from home. How will this impact what we do on our campus? We've been building two residence halls a year. We'll build – we'll start the construction of one next year, which will be finished the following year. And so we'll construct one instead of two, and then we'll just see how this thing goes. The important thing is that we have land to build this thing out, somewhere close to 50,000 students and we can build it just in time.

We've been doing this for a decade now. And so we're out in front from a classroom and laboratory standpoint. We're a little bit out right now from a residence hall perspective. This will take some pressure off the CapEx expense of GCU and allow them to accumulate even more cash, which is a very good thing. And so regardless of which way this trend goes going forward, I think we're really positioned to respond to it

In addition – and I just can't overestimate how excited we are about the [ph] churn (26:00) that's going on with our hybrid campuses. We created those courses very specifically, those pre-req courses and rolled them out approximately a year ago. And we've already got 3,000 students in those courses. We're only at 50% capacity in terms of filling the spots we have in our current 35 locations. And as those numbers continue to grow, those pre-req students continue to grow, we're going to have a real solid look into how quickly we're going to be able to fill all the spots in our 35 locations.

And of course, we're going to continue to add locations. And so since those students are in such, those graduates are in such dire need because they're going to be starting really good careers and because we have a 90% success rate, once they get there, the revenue per student on those students is significantly higher than either our online students or our ground campus students. And so, we think we're extremely well positioned regardless of how this thing goes in the next couple of years.

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

Q

And on the hybrid, is the expected acceleration in starts this fall and next spring entirely about the pre-req program? I don't think those are same store sales numbers. So do the new campus launches play into that as well? And any sort of change in trends in the traditional career change or student demand?

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

A

It's really three things. Number one, it took a while for our partners to understand that the market changed. The unemployment is so low that students that have completed degrees, the decision to leave a $60,000 or $70,000 a year job to spend $50,000 or $60,000 to make a little bit more money is a lot of people backed away from that. But the number of students and the excitement of younger students who are just graduated from high school or have some community college experience, the opportunity for them now to have a clear path into an ABSN program, our partner institutions now know that that's where the market is and there are really good students available in that area.

And so the fact that we now have only one partner who is [ph] resisting (28:37) what we call those advanced standing standard students, that's been part of the increase that you're going to see in third and fourth quarter. So that's one thing.

The second thing is definitely the prerequisites. That was a major bottleneck. Students would come and they would ask for advice and people would send them to a community college or a state university where they could start maybe in the fall semester, which was still three months away, or the spring semester, which was four months or five months away. And then you had no look into how things were going for them. The fact that we now have these courses specifically designed around what a nurse needs to know about biology, chemistry, anatomy, physiology, et cetera. They are eight week courses. They're priced very affordable. And you can access them from anywhere in the world. That's completely changed the picture for students because they're not borrowing money to complete those. Most of them are not borrowing money to complete those first courses, not knowing whether they can get into the program.

And so it's a much better deal for them. Once they see they're going to be able to complete the courses and finish them, the decision to borrow the money, because they're now only 12 to 16 months away from their Bachelor of Science and Nursing program, is really easy to make. Given the job openings, the pay and all of that. And so I think we've eliminated a major – I know we have eliminated a major bottleneck. Our counselors out there are very excited because when they refer students to these courses, they have a look into how they're doing all the way through. So they know that student x has five courses to take. They've completed three, they've got two to go, which means they're going to be eligible, for example, for the fall semester at one of our partner institutions.

And so that's the second major reason that we now have a much brighter picture and things should accelerate from here and get back to where we thought they would be when we first bought the company.

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

Q

Okay. Thank you.

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

Yeah.

Operator: Thank you. One moment, please. Our last question comes from Jeff Silber with BMO. Please proceed.

Ryan Griffin
Analyst, BMO Capital Markets Corp.
Q

Hey, this is Ryan on for Jeff. Last quarter you had called out some issues with conversion in the funnel for the ground campus. And given your outlook, it looks like that improved a lot during the quarter. Can you explain what drove some of the upside from the last time you spoke.

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

On the ground side or the online side.

Ryan Griffin
Analyst, BMO Capital Markets Corp.
Q

On the ground campus.

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

Since the last time we spoke, the only real difference is that we had a certain percentage of students who want to come to Grand Canyon, they want to do it online. And so we're going to exceed the number of students in that age category that we thought we would put into our program. But it's the continued inflationary pressures that families are experiencing that has caused certain students to say, I would love to have that experience about being on your campus, but I'm going to hold off.

And I'm going to go online, so they begin their coursework and they may come in the second semester. They may come at the first of the year. So unlike what's going on in a lot of universities where they just have a declining enrollment because they don't have the flexibility to give people options when changes like this happen. And there's a lot of things changes in America right now with people becoming comfortable working from home, educating their kids from home, going to college from home. I mean, that's definitely changed things.

People are getting more comfortable with that. But then inflation, inflation is very real for middle class families, and our ground campus is a big middle class place. We have upper class students and upper middle class students. And because of the work we're doing in our neighborhood, we have significant numbers of students that come from the lower socio economic strata. But we're mainly a middle class play. And there's significant amount of inflationary pressure on those families. And so they're taking more conservative approaches and they're holding off.

Now, the other thing that's changed, as I said since the last time we talked, is that we didn't anticipate schools making the kind of deals they're making. One of our issues is that we're extremely transparent and very objective.

We don't change criteria. It's very specific around what your GPA is and there are other criteria and that determines your scholarship amount and what you owe.

And that amount historically has been really, really good, still is as compared to private universities. State universities have really started to make deals that don't make any sense to me. We know that they're getting declining subsidies from their state governments. That's happening all over the country. And so unless they're going to change their expense structure significantly, I don't know they can make those deals in years two, three and four. We'll see. Either way, we've got the ability, because of our flexibility, to offer students a lot of different options, which I think puts us in a great place.

Ryan Griffin
Analyst, BMO Capital Markets Corp.

Q

Okay. Thank you. And then just on the last pillar, some of the apprenticeship and the workforce development, just thinking longer term how big do you think those could be and how meaningful down the line do you think they are? And maybe additionally what other corporates might make sense to partner with. I think you highlighted electricians before.

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

A

Well, it's very meaningful, how meaningful it's going to be to our financials we'll see. But extremely meaningful in terms of the work we're doing. We've got now the 16th ranked campus in the country. We've got brand new classrooms and laboratories throughout our campus. We're building it out, so it can serve 50,000 people. But even with that said, we have 300,000 square feet of empty engineering space in the late afternoons and evenings. And so our ability to create these programs mainly for the employers in the Southwest, I am very surprised by a couple of things. One, with the pre-apprenticeship program for electricians, it wasn't – there wasn't a lot of expensive CapEx that we needed to spend to make that happen.

We needed to teach the kids math in classrooms with whiteboards. And so that was surprising to me. That's extremely scalable. The machinist thing is equally as exciting because manufacturing is really coming back to this country. It's really coming back to Arizona. And so, the potential for us to really scale that as a business is exciting.

A couple of our former students brought the idea to me and we – they purchased – I gave them the space for free, paid for the utilities. They bought five machines. They did so well the first year that we now float – we've loaned them $1.5 million. They bought 15 more machines. And so, we are running a business where we're actually selling parts to people like Honeywell and they're going out to get the business. They're producing the parts. They're doing a fantastic job. And so being able to bring recent high school graduates into that kind of environment and have them learn while they're going to school, has a tremendous amount of potential, and we can finance that thing through the profits that we're going to make.

And so, we're just in the beginning phases of this thing. Could it become meaningful as a financial component to this business? It could be. But in the meantime, it's going to be extremely meaningful from the standpoint of us offering kids that come out of lower incomes home a chance to get into middle class jobs. In the state of Arizona, the Maricopa County heard about the program and they gave us a $750,000 check to write it. We said we didn't really need it, but we'll take it. We spent all but $380,000 of it – or we didn't spend $380,000 of the $750,000, and at the end of the year they were just shocked, they said, this is not what goes on. People spend all the money. Well, we took the $380,000, put it towards next year. And so it's a whole new experience for us. But it's so tied directly to specific companies in Arizona.

They're telling us how many electricians they need, how many machinists they need, and we're developing a process to produce those, so the students can move right into a job when they're through the one semester of work. And I got to tell you, we're having graduations for these kids and they bring their entire families. It's a pretty amazing project that's in the beginning phases. And we'll keep updating you as we move forward.

Ryan Griffin
Analyst, BMO Capital Markets Corp.

Q

That's great to hear. And then just last one for me, anything to call out on the regulatory front, whether it's gainful employment or otherwise. And then, any color on talk you might be having with the Department of Ed or any other commentary there?

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

A

No, not really. It's the same for us. Our metrics are so good. Our graduation rates, very, very low cohort default rates, 90/10 calculation continues to go down. Gainful employment, we would potentially have an issue with our education programs, first time teachers, and we're working on that with our local state representatives.

I don't think, that would be ridiculous to stop that. We produced 19,000 first time teachers in the next – in the last five years. So it's the same thing. They're talking about maybe bringing back some of the same kinds of rules, which if they do, for the most part, we have no trouble with that. Our metrics are very good. Hopefully, we'll get this thing resolved with the Department of Ed. But in the meantime, it absolutely does not impact what's going on. It doesn't impact our growth. 99.5% of our students have no idea one way or the other. They just love the programs that they're in. And so no, I think that really update you on from that standpoint.

Ryan Griffin
Analyst, BMO Capital Markets Corp.

Q

Okay. Thank you.

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

We have reached the end of our second 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 for your time.

Operator: Thank you. This concludes the conference call. Thank you for participating and you may now disconnect.