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Grand Canyon Education, Inc. (LOPE)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Third Quarter 2020 Grand Canyon Education, Incorporated Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Chief Financial Officer, Dan Bachus. 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 risk 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, Grand Canyon Education, Inc.

Good afternoon and welcome to Grand Canyon Education's Third Quarter Conference Call. GCE is gaining real momentum as an educational services provider. We are building three platforms that will provide significant growth over the next 10 years. The pandemic has been a serious challenge for universities throughout the country

and many are having financial problems. Recent college graduates who are new to the job market are also having a difficult time. Many have degrees that aren't serving them well in the current economy.

It has been GCE's goal to create educational models that address the real issues within higher education. The first six I have talked about before; one, the out-of-control rising costs of university education; two, the increasing student debt levels that will seriously hinder graduates as they begin their adult lives; three, as tuition level goes up, diversity on college campuses go down; four, bachelor's degrees should not take four to six years to complete; five, programs and delivery models lack the creativity necessary to address critical shortages in some industries; six, there are inadequate counseling and support services, especially for first-generation students or those studying at a distance.

In a recent article written by history professor, Steven Minch at the University of Texas, Austin titled Higher Ed's Dirty Little Secrets, he made the following observations. Three-fifths of college graduates would change their majors if they were starting over, 30% for better job opportunities and 20% to pursue their passions. Next – prior to the academic, 43% of college graduates were underemployed in their first job. Two-thirds remained in jobs that don't require college degrees five years later and last, most professors have no formal training in teaching, learning or course design. Grand Canyon Education is a large organization, over 4,000 professional staff. It's in a very strong financial position and can invest in educational infrastructure to help institutions address some significant opportunities in the employment marketplace. One of our partner institutions now derives 13% of their total revenues from GCE Orbis healthcare programs and they want to do more.

The combination of institutions looking for additional revenue streams and our ability to help them launch programs locally that prepare students for in-demand occupations is creating rapid partnership growth and a very bright future for GCE. Let me explain how GCE is in a great position to support the three main pillars or platforms of our business. The first pillar, Grand Canyon University Online, has 90,418 students. As of September 30, 2020, and in the quarter just completed, new students grew on a comparable start basis in the mid-single-digits, while total students grew 7.5% year-over-year. The total number of GCU Online students continues to exceed our expectations, driven by very strong start growth in the second quarter and higher than expected retention rates during the second and third quarters of 2020.

Year-over-year, new student growth in the third quarter was down sequentially from the second quarter as we expected and discussed on last quarter's call due to a much higher year-over-year comp and the fact that we had one less bachelor's degree start date in the third quarter of 2020 than in the third quarter of 2019.

We continue to see strong interest in GCU Online programs and the percentage of students that are attending at the graduate level continues to go up, which is why retention rates are so high. GCE continues to work with GCU to ensure that student growth takes place at levels and in programs that will produce high quality outcomes. This is the pillar of our business that is the most competitive. I've spoken previously about our strength in new program development. Understanding where the economy is going, where the jobs are going to be and creating programs that help students get those jobs is a differentiating factor for us. A second differentiating factor is offering programs that lead to licensure, programs in education, counseling, healthcare, etcetera that lead to licensure tend to have more clearly defined career paths and higher retention and graduation rates. Those programs are far more difficult to offer because it's difficult to manage at scale and at a distance the many details and requirements that are often state-specific. GCE has invested heavily in personnel, technology and automation that allows GCU to offer those programs and to ensure that students meet all state-specific requirements. Of GCU's 90,500 students – online students, over – approximately 40,000 are in those programs.

The second pillar or platform to our business is the GCU traditional campus. As many of you know, GCU shifted its start date for the Fall semester for its online students from August 24th to September 8th and they shifted the move-in date for residential students to September 21, 2020. Approximately 4,900 of GCU's traditional campus students elected to attend the Fall semester entirely in the online modality, which was higher than expected at the time of our last conference call, resulting in approximately 11,500 residential students compared to bed capacity of approximately 14,500. Although this resulted in less room and board revenue in the Fall semester, the number of students electing to take all of their classes online had the effect of increasing our capacity, allowing the university to exceed its enrollment expectation by roughly 600 students to a total of 22,363. This is in stark contrast to what many universities in the country are experiencing.

Ground enrollments in the Spring 2021 semester look strong and at this time, we have a large number of traditional students that stay home during the Fall semester, telling us they plan to return to campus in the Spring. We expect 750 new enrollments and approximately 2,600 that stayed home in the Fall to return. That would bring the Spring enrollment to 20,250 and residential students to 13,000. This would represent approximately 10% growth in ground traditional students year-over-year and approximately 9% growth in residential students year-over-year. GCU's traditional campus is in a very strong position and is becoming a bigger part of the strategy every day.

GCU's goal is now to have 40,000 students on its traditional campus in West Phoenix and they are once again exploring developing a second campus in the East Valley. The pandemic has made it abundantly clear the 18-year-old students' desire to have a campus experience as much now as they ever had. It just needs to be affordable. The combination of GCU and GCE in building out the traditional campus has many strategic advantages. One, Phoenix is a destination city and Arizona is a destination state; two, GCU has invested \$1.5 billion in the educational infrastructure and the campus is currently ranked 19 in the country. GCU hasn't raised its tuition in 12 years and their students take out less debt than the average state university student.

Four, GCU now has nine colleges that have over 270 academic programs, emphases and certificates. Five, GCU is adding more than 20 new programs per year, targeted at growing occupational areas. Six, the university will invest \$500 million additional dollars in the next four years with the plan growing out this campus to accommodate 40,000 students. Number seven, GCE has almost 200 people involved in the recruiting process. GCE has a state-of-the-art marketing and advertising agency to develop efficient and productive campaigns. Nine, GCE has invested heavily in building out virtual tours of campus and live lab and classroom demos to expose current high-school students to GCU during the pandemic when travel is limited. GCU's Christian/free market positioning makes it attractive to a large national audience with very few affordable and scalable options.

The third pillar or platform of the business is Grand Canyon Education/Orbis. Going forward, we are combining how we talk about what we used to refer to as the third and fourth pillars in order to simplify and better explain our strategy. Our goal is to continue the rapid expansion of partners, some of which will have both healthcare programs and non-healthcare programs. GCE bought Orbis 20 months ago. Since that time, we have expanded to 25 partners and 30 locations. The goal is to have over 40 locations by the end of 2022, 50 locations by the end of 2023 and eventually to grow to 80 locations.

This is a huge national platform in which to enroll students. GCE now not only has the largest partner in the space, it is also rapidly adding partners. This is happening because first, many quality universities are experiencing financial stress and looking for options to increase their revenues. Second, there are important healthcare careers that are experiencing serious shortages. Third, universities don't have the resources to scale many of these programs. Fourth, GCE has the capital and the knowhow to scale these programs and create

opportunities for thousands of underemployed young adults, while helping universities create more important additional revenue streams.

Most locations start with the ABSN program, but most have the ability and desire to scale up to as many as 10 additional programs. Sites will eventually accommodate between 250 and 1,000 students in multiple programs. Programs will cost between \$30,000 and \$60,000, take between 12 and 24 months and lead to jobs paying between \$50,000 and \$100,000.

90% of the students in these programs will have already completed a Bachelor's degree, but consider themselves underemployed. GCU will fill many of the sites in the West and along with Valparaiso become the model with how to expand into additional healthcare and non-healthcare academic areas.

Grand Canyon Education has three, large, well-financed, highly professional platforms to grow with in the next five years. Each platform is addressing real needs in the market and is producing high-quality outcomes for our partners and the economy. I have never been more excited about the future of GCE.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on our 2020 [ph] second quarter (sic) [third quarter] (00:12:28), talk about changes in the income statement, balance sheet and other items as well as to provide 2020 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 September 30, 2020 and 2019. The non-GAAP amounts exclude the tax-effected amount of the amortization of intangible assets, the loss on transaction amounts and the impact of a large state tax refund received in the first quarter of 2019 related to taxes paid in previous years.

The amortizable intangible assets acquired in the Orbis acquisition totaled \$210.3 million and amortization expense in the third quarter of 2020 and 2019 was \$2.1 million and \$2.2 million, 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 September 30, 2020, and 2019, is \$1.14 and then \$1.24, respectively. Service revenue exceeded our expectations in the third quarter of 2020, primarily due to slightly higher than expected enrollments at our university partners. GCU had a greater than anticipated number of students decide to take all of their courses online in the Fall semester, but given the timing of the Fall semester start, this only had a small impact on third quarter revenue. It will have a much greater impact on the fourth quarter. The decline in revenue growth rate in the third quarter was anticipated as we had a shift in tuition revenue from the third quarter to the fourth quarter as a result of GCU's decision to move its Fall traditional start from August 24 to September 8, resulting in 13 less revenue-producing days in the third quarter of 2020 compared to 2019. GCU also shifted its moving day for residential students back to September 21, resulting in lower room and board and certainly ancillary revenues in the third quarter by three weeks.

Approximately 4,900 of GCU's traditional campus students elected to attend the Fall semester entirely in the online modality. Last, limited residential students remained on campus during the Summer semester, most doctoral residencies were canceled through July and doctor programs in August and September were held at another location with lower than normal attendance and ancillary businesses operated by GCU such as the hotel

and merchandise shops were closed for most or all of the third quarter 2020 due to the COVID-19 outbreak. We estimate the impact of all of these changes made by GCU, along with a slightly lower than expected Summer semester new starts at some of our other partners, resulted in reduced revenues of \$22.9 million in the third quarter.

Included in both our 8-K and 10-Q filed today is a detailed explanation of the actual and projected COVID-19 impacts on the university's Spring and Summer and Fall 2020 semesters. And I'll discuss these in more detail in a few minutes. Excluding the COVID-19 impact on GCU's ancillary revenues, revenue per student grew year-over-year. Our effective tax rate for the third quarter of 2020 was 20.2% compared to 20.7% in the third quarter of 2019 and our guidance of 20.7%. In the third quarters of 2020 and 2019, the effective tax rates were impacted by contributions made in lieu of state income taxes to school sponsoring organizations, \$4 million in the third quarter of 2019 and \$5 million in the third quarter of 2020, partially offset by lower excess tax benefits of \$0.1 million in the third quarter of 2020 as compared to \$0.4 million in the third quarter of 2019 due to a lower stock price and fewer stock option exercises in the third quarter of 2020.

We repurchased 266,641 shares of our common stock in the third quarter of 2020 at a cost of approximately \$23.3 million and another 184,486 shares at a cost of \$15.1 million subsequent to September 30, 2020. We had \$85 million available under our share repurchase authorization as of September 30, 2020.

Turning to the balance sheet and cash flows, total unrestricted cash and short-term investments at September 30, 2020 was \$179.8 million. GCE CapEx in the third quarter of 2020 including CapEx for new off-campus classroom and laboratory sites was approximately \$9.9 million or 5% of net revenue. We continue to anticipate CapEx will be between \$30 million and \$35 million in 2020 due to the opening of seven off-campus classroom and laboratory sites in the second half of 2020 and four more sites in the first half of 2021. As of September 30, 2020, we have 30 off-campus classroom and laboratory sites opened as compared to 23 as of September 30, 2019. As we discussed last quarter, we provided GCU \$75 million of funding for short-term cash flow purposes at the end of the second quarter of 2020, which was repaid by GCU in July 2020.

Last, I would like to provide color on the guidance we have provided for the fourth quarter. The guidance we have provided for the fourth quarter of 2020 continues to be non-GAAP as adjusted net income and as adjusted diluted income per share as we exclude amortization of acquired intangible assets. We have lowered our revenue guidance for fourth quarter of 2020 by \$1.5 million due to the lower GCU room, board, fee and ancillary revenue as a result of the fewer Fall semester residential students, partially offset by slightly higher university partner enrollments.

On the expense side, we have lowered our expense projections for the fourth quarter as we continue to trend slightly lower in head count and travel and other costs than originally anticipated. We will continue to utilize some of these savings in other ways to ensure that we meet our partners' enrollment expectations.

Our net interest expectation for the fourth quarter is \$14.1 million, which is down slightly from our previous expectation of \$14.4 million, as we anticipate we will earn less interest on invested cash as a result of our stock repurchases. Our expected effective tax rate for the fourth quarter remains at 22.4%. We have decreased our weighted average shares outstanding amount based on stock repurchases. Although we might repurchase additional shares during the fourth quarter of 2020, these estimates do not assume repurchases other than those already made.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from the line of Jeff Meuler with Baird. Your line is open.

Jeffrey P. Meuler

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

Q

Yeah. Thank you. Brian, could you just talk through the exploration on the university side of expanding the campus to 40,000 students and potential East Valley campus, like what – is it a – has the decision been made at this point or what's the timeline for it and how would it be financed, would it come from GCE or from other sources?

Brian E. Mueller

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

A

The decision to expand the West Valley campus to 40,000 students has been made. We're very close to 300 acres right now and we have clearly, in our site, 100 additional acres and the ability to build out classrooms and laboratories on those 400 acres that could accommodate 1,000 students that will all be GCU. But GCU will obviously be responsible to grow the student body. GCU will do the building out of the campus. We also have a significant amount of property at 27 Avenue and Camelback that we were using for our call center and we're going to convert much of that to classroom building because we are going to continue to have a lot of people working from home. So, space, dollars for all of that expansion is not going to be an issue, that's all planned for, it's a matter of just filling the space with students and the momentum is very, very strong. As we continue to look at college enrollments over the next five or six years, people are going to be increasingly extremely practical about their decisions.

Students want to live on campus. They want to have a college campus experience. There's no question about that and there are very few options that look like us that are affordable. And so we see that path pretty clearly. In the East Valley, which is the fastest-growing part of the valley and where the most money is, the most industry is, we were looking serious – GCU was looking seriously at that a number of years ago and we've begun to do that – they have begun to do that again [indiscernible] (00:21:35) president, but we think that there are some really interesting possibilities especially around that growing group of young adults who are struggling in the marketplace – job marketplace last in, first out. Many consider themselves unemployed. Many consider themselves working in areas that they didn't study for in college. And that is a dirty little secret in higher education. There are far too many students studying in areas that aren't going to lead to productive careers. And so, we have that group of people in our target and some of the Orbis programs are part of that. But there are other programs, mainly in the STEM areas, that we also are watching closely. So, we haven't closed anything yet in the East Valley, but we're getting closer.

Jeffrey P. Meuler

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

Q

Okay. And then apologies if I missed it, but any update on Valparaiso and moving that from MoU you to a contract?

Brian E. Mueller

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

A

No, we didn't mention Valparaiso. We've got two large markets that we have pinpointed for them in the Midwest that we expect them to fill with the healthcare programs. And then we also are in the process of finalizing the contract so that we eventually will start marketing their other graduate programs.

Jeffrey P. Meuler

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

Q

Okay. And then just two questions that I continue to get asked from investors fairly frequently, I guess, add my perspective, but would love yours in this forum. One would be if there is a tuition-free public university option for families making below a certain income threshold under a Biden, I guess, election scenario? And then the second is just the impact of every or almost every university in the country having some form of online options now. So, just the potential impact on GCU and I guess your other partners from those two factors. Thanks.

Brian E. Mueller

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

A

Well, second question is a very good one and investors should be asking that question. There's a lot of people who are, interestingly enough, most of the entrants into the online world are pretty much still imitating what we did in University of Phoenix many days ago. And the easiest way to get into that world is with the programs that are easiest to convert and to implement. And so you see a lot of – it's very crowded in those places and there's a lot of price pressure in those places. We continue to be successful there and there's no lack of interest in GCU's programs. But we do tend to focus more on the more difficult programs to implement.

That's why I talked about the licensure programs. We have been for a long time and continue to be laser-focused on programs that have very clear career paths and it's very clear that there are job openings in what they pay. And a lot of those programs are more difficult to offer because there are state-specific requirements around fingerprinting and internships and clinical placements and observation out, I'm talking about education, healthcare, counseling, even in certain technology areas. And so that platform that we've built, that is very state-specific from a requirement perspective is really advantageous to us because we don't expect the student to go to enroll in our programs and then take care of those issues themselves, which many universities tell them to do. We have that all covered for them.

And there is a huge investment made in that by us in terms of personnel, technology, automation and so that still gives us a very strong positioning in the GCU Online business. But you can probably tell from – I hope you could tell from what we were saying that fully ground offerings to traditional students can be extremely profitable and a combination program of attending online and doing higher end lab work on ground is also a – that's a tough business to enter if you don't have the capital and know-how to do it, which is why we're talking a lot about trying to get to 80 platforms. If we get to 80 of those, we'll be well-positioned to – and there's no shortage, I mean, the universities are calling us every day, they want to get into that business.

There's a need there. There's pretty defined metrics around what people are willing to pay, how long it takes them to complete. The other thing that's great about those areas is it's greater than 90% graduation rates. And so you're their right to answer the question about it's getting more competitive, but we are well out in advance, I think, on all three of those platforms and can compete very well with both quality and from a price standpoint.

The first question was about...

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

A

Free college.

Jeffrey P. Meuler

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

Q

Competing with free college.

Brian E. Mueller

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

A

Oh. Free college. What we have heard is that possibility of increasing Pell Grants. And so if you're going to make college free, the reality is that for low income students, college already is free. The Pell Grant that you get more than covers tuition at a community college. And in many cases, it will come close to covering what it costs to go to a state university for your last two years. And we're in that – we're very close to that as well after scholarships. And so as a fully accredited institution, Pell Grants are – the Pell Grant level is raised. That would do nothing, but help us. That would make us even more competitive. So we would look forward to that if that happens.

Jeffrey P. Meuler

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

Q

Got it. Thanks, Brian.

Brian E. Mueller

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

A

Sure.

Operator: Your next question comes from the line of Henry Chien with BMO. Your line is open.

Henry Sou Chien

Analyst, BMO Capital Markets Corp.

Q

Hey, everybody. Thanks for taking the question. Yeah. I wanted to ask if you have any update on finding a larger partner for, I guess, for online and campus services that you'd talked about before or is it more of the priority now, the university partners with Orbis, just any thoughts there would be great?

Brian E. Mueller

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

A

Well, that is – that's definitely the emphasis. I mean the – we're expanding so rapidly and the return on investment with a capital with that investment comes so quickly. It's not that and a larger kind of arrangement with a university, other than 8 to 10 healthcare programs, will come, it's going to come is – it's coming through GCU. But it's also going to come through Valparaiso and eventually others. But we are very anxious to invest in getting to those 80 locations because when you think about the investment, \$1.5 million for the physical infrastructure, another \$1.5 million to get it up and running in the first year and then becoming profitable at the level of 40% in year three, when you compare that to the metrics in the other OPM market, there's nothing that returns value to shareholders like that investment and to have footprints in 80 different locations in the next five or six years and then to be able to build on that in each one of those in an area that is far less competitive because it's far more difficult to do. And so, yes, that is our – that and the ground campus, those things are platforms that we have that literally hardly anybody else in the country has. And as more and more universities are seeking additional revenue streams and get into the easy part of the business and that becomes more competitive and the price – pressure on price becomes more significant, not that we're not doing well there because we are and we'll continue to do

that. But these differentiated areas that are harder to do that are much less competitive I think is exciting to us and should be for investors.

Henry Sou Chien

Analyst, BMO Capital Markets Corp.

Q

Yeah. Got it. Got it. That makes sense. And in terms of like the broader environment, it seems like a lot of the universities are scrambling to go online, where there's a lot of shift to online. How does the strategy fit in, in that kind of environment? I mean it sounds like it's not too much of a change, but I just would love to hear your thoughts there.

Brian E. Mueller

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

A

Yeah. I mean that's a fascinating thing. The traditional students and how they're going to navigate this COVID thing. There's a number of things we've learned in the first three months or so. I think one of them, is students really want to be at campus, they really want to be at campus. You can fly, you can walk through some universities during the day and hard to see any students. Literally, you see very few students because many universities, without saying it, have converted almost entirely to online. But the students don't go home, the students want to be on the campus.

Our experience is that students absolutely want to be on campus. We were very cautious early and we wanted them to make a decision based upon what was best for them and what was not best – regardless of whether it was right for us from a revenue perspective. And so we were cautious and we were conservative and 4,900 stayed home. But our experience is, knock on wood, going well. Students are in classrooms and so if you walk through our campus during the day, the campus is crowded. Students are out, they're in and out of classrooms, they're in and out of laboratories, they're in and out of eating facilities and we are obviously testing students [indiscernible] (00:32:50) positive. We isolate and those we have contact traced, we put in quarantine. It's a very small number compared to the 18,000 students that are coming here every day now. But the – and the positives that we have, they're absolutely not the results of being in a classroom. We're very confident of that. When students leave the campus in the evenings, that's when we get into trouble, but that trouble's been minimized. And so, the total number of students that we're teaching in our traditional-aged students, we beat by 600. We also beat our new enrollment goal.

And so, I think we found a balance and we think the Spring semester is going to be even stronger with a big percentage of those 4,900 students coming back to campus and living in the residence halls. I'm knocking on wood because who knows what's going to happen the last four weeks here. But we've – I think we've found a really good balance and we've set ourselves up for the Fall of 2021, 2021 could be really good. Obviously, we need a vaccine and more therapeutics. But we're expecting that to happen. And we think Fall of 2021 could be amazingly good year.

Henry Sou Chien

Analyst, BMO Capital Markets Corp.

Q

All right. Yeah. That's great. That's really interesting. Yeah. Thanks.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

A

Thanks Henry.

Brian E. Mueller

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

A

Thank you.

Operator: Your next question comes from the line of Greg Pandy with Sidoti. Your line is open.

Gregory Pandy

Analyst, Sidoti & Co. LLC

Q

Hey, guys. Thanks for taking my question. Just kind of curious, correct me if I'm wrong, but there wasn't a demand issue. But it was a bit of a bottleneck at Orbis during a heightened wave of COVID, I think was clinical, if I'm not mistaken. And what is the risk that we see that again under a third wave or are hospitals more kind of prepared to operate and would that go much smoother even if there is a third wave?

Brian E. Mueller

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

A

The thing that will go smoother we believe is that the university – our university partners now know that most of our facilities, the 14,000 foot facilities that are heavily lab-intensive are 45 minutes to an hour from the new campus. And those facilities do not serve traditional-aged students. They don't serve residential students. And so, I think they've gotten very comfortable with that that nurses run those facilities and nurses are doing the teaching in those facilities for the most part. And so, they really know how to perfect themselves and how to create a safe environment. And so even if there is a third wave that impacts the main campus, for example, at a place like Marquette or Loyola or one of those places, we believe that we know enough now that we can keep that Orbis campus go through that.

A lot of effort was put into replacing certain of the clinical requirements with simulation labs. And so there was a lot invested in the last four, five months in building simulation experiences for students that nursing boards have considered to be effective and past the requirements. And so that has improved the possibility that hospitals can take care of our clinical requirements going forward. So are we in a perfect situation? No, but we're in a better situation than we were in the Summer because we've gone through it and have made adjustments that we think will serve us well if there is a third wave.

Gregory Pandy

Analyst, Sidoti & Co. LLC

Q

Got it. Thanks a lot.

Brian E. Mueller

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

A

Yeah. Thank you.

Operator: Your next question is from the line of Brett Knoblauch with Berenberg Capital. Your line is open.

Brett Knoblauch

Analyst, Berenberg Capital Markets LLC

Q

Hi, guys. Thanks for taking my question. Maybe the first one for Brian. Given your role at GCU, I just would like to hear how you're thinking about maybe the current environment. Like if you were a president at another university

that didn't already have such high exposure and maybe online efficiency as GCU does, how would you be going about trying to expand that university's online presence?

Brian E. Mueller

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

A

The faculty, what you have to – if I look at another institution and we were faced with maybe another 12 months of this, who knows, I think you have to put a lot of resources into faculty training. You've got to get every faculty member, not every but 90% of the faculty members prepared to adjust immediately and be able to deliver online. There's so much technology available now that aside from the clinicals in nursing, some of the lab [indiscernible] (00:37:59) things in pre-med and engineering, etcetera. Aside from those things, I would say I would want to be ready to be able to move on a dime through faculty training and providing them the infrastructure so that in those areas that you can transition quickly, do and then that would – that seriously limits the number of people on your campus or the number of students in classrooms and I think at that point, you could probably handle the engineering students and the nursing students and the pre-med students that have to be on campus.

But the – we are just – we've got nine colleges, we've got nine deans and the level of cooperation that we've got from our faculty to this whole thing was a key for us. They were willing to – and a lot of them had a big head start, so it wasn't like it was a big hill to climb, as big a hill to climb for us, but the truth is that a lot of these programs can get taught very well if the faculty are prepared from an online perspective.

Brett Knoblauch

Analyst, Berenberg Capital Markets LLC

Q

Okay. Got it. Very clear. And then maybe just not withstanding maybe the potential for campus expansion to East Valley with the residential programs, I guess, what is the maximum capacity without additional expansion at the current moment?

Brian E. Mueller

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

A

On the traditional campus?

Brett Knoblauch

Analyst, Berenberg Capital Markets LLC

Q

Yeah.

Brian E. Mueller

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

A

Yeah. We're probably a little over 30,000 we could accommodate right now. And so, for example, next year we're building three new residence halls, a new parking garage, 50,000 additional square feet of space, classroom space. And from a classroom perspective, right now, we're good for the next three years which is really positive. We'll have to add – continue to add residence halls, but that's one of the things that most differentiates the financials of our campus business is that investors really want us to build residence halls. The retention rates and graduation rates of students that are on your campus are much higher. The residence halls, even though we build pretty nice stuff, I mean, it's apartment style and it's – students have their own bedroom and I think we're at 32 restaurants, five pools, five fitness areas, so this is a nice place to go to school, but the margins on those residence halls, even though we're very expensive, are significant, really significant, and really investors want GCU to continue to build residence halls because GCE putting students in those, the combination of the tuition and the room makes those students very valuable students.

And I say that, but I also want to add, we've been able to do that without raising tuition on students. And so we're kind of – everybody is winning here in the model and I think that's very important. The average student – and I need to keep saying this – the average student on our campus pays between \$8,600 and \$9,000 for tuition and they are studying in state-of-the-art classrooms and laboratories, they're living in brand new residence halls. They're eating in 32 different restaurants and so you can see why this would be an attractive option for students. Room and board for most students is about \$7,000. So, when you think about what it's costing at other places, this is a very attractive option. Why is it profitable? Because it is a part of a much larger business. We're leveraging an infrastructure across the 90,000 online students and the 22,000 students on campus which creates huge efficiencies, which is why – another reason we think we're well-positioned, if you think about the history of higher ed, it's always been small and elite that people prefer. We really think that the winners in the long term are going to be those that are large with a lot of flexibility in how you deliver. I think the K-12 world is learning that and I think the pandemic has forced the hand of higher ed that people have different lifestyles, they have different goals, they have different – and being able to be flexible in how you can deliver what you do, those people are going to be the winners in the future, I think.

Brett Knoblauch

Analyst, Berenberg Capital Markets LLC

Q

All right. Thanks so much. Appreciate it.

Brian E. Mueller

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

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Yes.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

We've reached the end of our Third Quarter Conference Call. We appreciate your time and interest in Grand Canyon Education. If you still have questions, please contact myself, Dan Bachus. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day. You may all disconnect.

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