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Grand Canyon Education, Inc. (LOPE)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Grand Canyon Education second quarter 2021 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]

Thank you. I would now like to turn the conference over to your host today, Mr. Dan Bachus, Chief Financial Officer. Sir, the floor is yours.

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'll turn the call over to Brian.

Brian E. Mueller

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

Good afternoon. Welcome to Grand Canyon Education's second quarter fiscal year 2021 conference call. GCE had another successful quarter, and long term, the future is very bright. We continue to experience some short-term issues due to the pandemic, which I detailed on the first quarter call, and I will provide an update in a minute.

However, long term, we are building three unique and differentiated platforms that will provide significant and impactful growth.

The pandemic has been a serious challenge for universities, and many are experiencing significant enrollment and financial issues. It continues to be GCE's goal to create educational models that address the real issues within higher education. I believe those issues continue to be: one, the out-of-control rising costs of university education. From the early 1980s to the late 2010s, the price of college increased 8 times the increase in wages; number two, the increasing debt levels that will seriously hinder graduates as they begin their adult lives; three, as tuition level goes up, diversity on college campuses goes down; four, bachelor's degrees should not take four to six years to complete; five, programs and delivery models lack the creativity and flexibility necessary to address critical shortages in some very important industries; six, there are inadequate counseling and support services, especially for first generation students or those studying at a distance; seven, three-fifths of college graduates would change majors if they were starting over, 30% for better job opportunities; eight, prior to the pandemic, 43% of college graduates were underemployed in their first job. Two-thirds remain in jobs that don't require college degrees five years later.

Grand Canyon Education is a large organization, is in a very strong financial position, and can invest in educational infrastructure to help institutions grow their student enrollments. For example, GCE just completed the development of a new and extremely robust online learning system and has implemented it currently across GCU's more than 110,000 students. One of our partner institutions now derives 14% 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.

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 91,572 students, that as of June 30, 2021 and in the quarter just completed, total students grew 4.1% year-over-year. GCU has historically put a priority on new program development that helps students gain employment and build careers in the modern economy, and is also focused on programs leading to professional licensure, with most of those being at the graduate level.

As we previously discussed, when the pandemic hit last March, we saw a huge surge in new enrollments in the months of April, May, and June. New enrollments continued to grow above our stated objectives the next 12 months, and total enrollments grew above expectations because of very high retention and reentry rates. We knew the last three quarters of this year would be challenging because of the very high comps, but we are also running into three additional challenges.

New starts did not meet our original expectations in April and May, because many schools, hospitals, counseling centers, and businesses had not opened up the way we expected them to, and our access to their employees had not returned to normal. We saw improvements in June as things started to open up, which resulted in significant year-over-year growth in new enrollments in June. Even with the strong June new enrollment, GCU's online new enrollment declined in the high single digits year-over-year in the second quarter.

Additionally, because of the high retention rates during 2020, the number of graduates are exceeding our expectations and our reentry pool dried up, which is pressuring the year-over-year total enrollment growth rate. It's extremely important to note the miss in enrollment has been mostly at the graduate level. We haven't pivoted to recruiting more adult undergraduate students in the short term, because GCU's high-quality student body produces very good metrics, including: high graduation rates, low cohort default rates less than 6%, a 69.7%

90/10 percentage, low student debt amounts as compared to state and private universities, and very low parent PLUS amounts as compared to state universities.

With the spread of the Delta variant, we encountered some of the same issues that we incurred in April, May, in July. We still consider this enrollment challenge to be short term, although we don't know exactly how long it will be until our direct work with companies, hospitals, school districts, and counseling centers return to historical levels. As a result, we don't want to change a very successful 13-year strategy. Given this uncertainty, we have given a range of outcomes for the second half of the year, with the high end of the range being if things return to normal in the next few weeks, and the low end of the range assumes that our work remains at the April, May, July levels through the rest of 2021. Regardless, we are confident in our ability to grow GCU online's enrollments at our long-term stated objectives once things return to normal.

The second pillar or platform to our business is the GCU traditional campus. As many of you know, GCU began in the fall 2020 semester, with 22,363 ground campus students, of whom approximately 5,000 stayed home and took their classes online. In the spring 2021 semester, GCU started with 19,721 ground campus students, of whom approximately 3,500 stayed home and took their classes online. This resulted in approximately 3,000 fewer students paying room board and other fees related to being an on-campus student. However, this was partially offset because GCU actually had an increase of 11.5% in ground traditional students excluding professional studies. We are extremely excited with the current trends related to the GCU campus enrollment.

Based on the number of students currently registered, we should meet or exceed both the university's new enrollment goal and total enrollment goal. The university is also currently at near capacity for residential enrollment. GCU actually built three new residence halls this year, believing that they wouldn't need to build any new residence halls the following year. Not only will the residence halls be at capacity this year, GCU will have to build at least two new residence halls to meet the demand for the following year.

In addition, the approximately 9,000 new students attending campus this fall will have an average incoming GPA of 3.6. GCU's Honors college will grow to greater than 2,800 students, with average incoming GPAs exceeding 4.0. The traditional ground campus continues to be highly diverse, with approximately 28% Hispanic, 6% African-American, and over 40% students of color. This is a remarkable achievement given the challenges of the last year and the enrollment declining at many universities. The fall semester begins the day after Labor Day, and currently plans are to be fully up and running in a traditional manner.

GCU's traditional campus is in a very strong position and is becoming a bigger part of the strategy. GCU's goal is now to have 40,000 students on its traditional campus in Phoenix. The pandemic has made it abundantly clear that 18-year-old students desire to have a campus experience as much now as they ever have, but it has 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 educational infrastructure, and the campus is currently ranked 19th in the country. Over 75% of the traditional campus students are studying in science, technology, engineering, math, and business areas, and the students are extremely impressed with the new and modern classroom and laboratories that exist across the campus.

GCU hasn't raised tuition in 13 years, and their students take out less debt than the average state university student. In addition, The Wall Street Journal recently released average PLUS loan debt amounts; GCU parents take out approximately 50% of the debt amount taken out by the three heavily subsidized state universities in Arizona. GCU now has nine colleges that have over 209 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 in the next four years, with the plan to grow out its campus to accommodate 40,000 students. The university is in a strong financial position, in the aftermath of its split from GCE to become a nonprofit institution. GCU has $307 million in cash as of June 30, 2021 and is financing all of its cap ex-growth, those that predicted the transaction would produce financial ruin to the university were very wrong. Seven, GCE has invested heavily in building out virtual tours of campus and live lab classroom demos to expose current high school students to GCU during the pandemic when travel is limited.

Eight, GCU's Christian and free market positioning makes it attractive to a large national audience with very few affordable and scalable options. Included in the GCU ground enrollment number is professional studies students, working adults studying on the ground, traditional campus at night. Due to COVID-19, we have started bringing adult students – we have just started bringing adult students to campus in the evening after almost 18 months. As a result, the professional studies number included in the ground enrollment number has declined significantly year-over-year due to graduations. However, our information meetings are filling up, and we expect our professional studies enrollment to begin growing again.

The third pillar or platform of the business is Grand Canyon Education/Orbis. Our goal is to continue the rapid expansion of partners, some of which want to provide both healthcare and non-healthcare programs. GCE bought Orbis 29 months ago. Since that time, we have expanded to 27 partners. University partner enrollments at our off-campus classroom and laboratory sites were 4,210, an increase of 13.2% over enrollments June 30, 2020, which includes 176 GCU students at June 30, 2021.

Nursing enrollment is up 19% during that same period, offset by a decline in occupational therapy students due primarily to COVID restrictions. We opened 10 new off-campus classroom and laboratory sites since June 30, 2010, resulting in an increase of those sites to 31. We have signed contracts with new partners in the Southern California market and in New York City market. We will open up medical lab science programs with two new partners. We are working very hard at a number of locations in the West to implement GCU's Nursing and other healthcare programs.

The goal is to have over 40 locations by the end of 2022, 50 locations by the end of 2023, and eventually grow to 80 locations. This is a huge national platform in which to enroll students and produce graduates. This is very important since the country is experiencing huge deficits in many healthcare professions. GCE now has not only the largest partner in the OPM space, GCU 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 and other technology careers that are experiencing serious shortages. Third, universities don't have the resources to scale many of those programs; fourth, GCE has the capital and the knowhow to scale those programs and create opportunities for thousands of underemployed young adults, while helping universities create important additional revenue streams.

Most locations start with the ABSN program, but most have the ability and desire to add additional programs. Sites will eventually accommodate between 250 and 1,000 students in multiple programs. Programs will take between 12 and 24 months and lead to jobs paying between $50,000 and $100,000. Many of the students in those programs will have already completed a bachelor's degree, but consider themselves underemployed. GCU will fill many of the sites in the West and will continue to expand into additional healthcare and non-healthcare academic areas.

We continue to work with Harding University on the rollout of multiple Orbis sites, as well as a fully developed model for some of their master's degree programs. This is the first more comprehensive contract that may be replicated once it becomes successful.

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. In a previous conference call, I outlined a GCE and GCU Five-Point Plan designed to transform an inner city neighborhood. The plan involves bringing jobs, creating safety, restoring homes, and investing in K-12 support leading to a huge scholarship program for inner city students that qualify. We are very proud of the ongoing equality efforts that are producing real results.

In addition, GCU/GCE ran a vaccination center on campus to serve our neighborhood. That center provided a total of 116,000 vaccinations in a 10-week timeframe. That very important work was provided by 3,900 volunteers, who worked 31,463 volunteer hours resulting in no cost to the taxpayer. The project was assisted by partnerships with Chicanos Por La Causa and our local Mexican embassy and provided a much needed service to a very vulnerable population.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on our 2021 second quarter, talk about changes in the income statement, balance sheet, and other items, as well as to provide 2021 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 June 30, 2021 and 2020. The non-GAAP amounts exclude the tax affected amount of the amortization of intangible assets. The amortizable intangible assets acquired in the Orbis acquisition totaled $210.3 million, and amortization expense in both the second quarters of 2021 and 2020 was $2.1 million.

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, 2021 and 2020 is $1.12 and $1.03, respectively. Service revenue was in line with our expectations in the second quarter of 2021. As expected, the GCU online enrollment growth rate slowed in the quarter due to the items Brian mentioned earlier.

Ground summer school enrollments and Orbis enrollments approximated our expectations. Revenue per student continues to grow on a year-over-year basis, primarily due to increased room board fee and other ancillary revenues at GCU, as compared to the prior-year period, and the growth in the enrollment for students at off-campus classroom and laboratory sites. These increases were partially offset by a one-day shift in timing for the spring campus semester, resulting in one day moving into the first quarter of 2021 from the second quarter of 2021.

Service revenue per student for off-campus classroom and laboratory sites generates a significantly higher revenue per student than we earn under our agreement with GCU, 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. Included in both our 8-

K and the 10-Q filed today is a detailed explanation of the actual impacts of COVID-19 on all of our university partners.

Our effective tax rate for the second quarter of 2021 was 23.3% compared to 24.6% in the second quarter of 2020 and our guidance of 23.7%. The lower than expected effective tax rate was primarily due to favorable adjustments as a result of the completion of several state audits. We repurchased 981,431 shares of our common stock in the second quarter of 2021 at a cost of approximately $95.3 million, and another 218,777 shares at a cost of $20 million, subsequent to June 30, 2021.

In May 2021, we entered into an accelerated repurchase plan with Morgan Stanley, resulting in a payment for $50 million, with initial common shares delivered of 418,279, approximately 80% of the shares based on the fair market value. These shares and $40 million of the payment are included in our second quarter share totals and available authorization balance. The remaining $10 million prepaid will be included in the treasury shares repurchased once we have final settlement for shares repurchased under the ASR agreement, which will be no later than September 9, 2021.

In July 2021, the board of directors increased the authorization under our existing share repurchase program by $970 million, which I will talk about more in a moment. As of today, including the increased authorization, we have $1.050 billion available under our share repurchase authorization.

Turning to the balance sheet and cash flows, total unrestricted cash and short-term investments at June 30, 2021 were $113.9 million. GCE CapEx in the second quarter of 2021, including CapEx for new off-campus classroom and laboratory sites, was approximately $6.8 million, or 3.4% of net revenue. We continue to anticipate CapEx for 2021 will be between $30 million and $35 million. GCU has been funding its capital expenditures using its own funds, except that in both June 2021 and 2020, GCU requested additional loan amounts that approximated its previous capital expenditures during those fiscal years.

In both instances, GCU repaid the amounts borrowed in the following month. We borrowed $35 million on our credit facility near the end of June to facilitate GCU's requests, and the borrowing was repaid in July once GCU repaid us. Thus, our credit facility had an available line of credit of $115 million at June 30, 2021, but has an availability of $150 million as of today.

A number of months ago, GCU engaged a firm to assist them in refinancing the Secured Note. We have been informed by GCU that although there is significant work that still must be done, they are optimistic that the Secured Note will be repaid in part or in full by the end of the year. If GCU is successful in refinancing all or part of the Secured Note, it would eliminate or reduce the interest income earned by us. In anticipation of the possible repayment, the board of directors increased the authorization under the Stock Repurchase program by $970 million and approved a plan to repurchase stock in the second half of 2021. Under the board's directions, we will repurchase an amount equal to $500 million, if the amount refinanced is less than or equal to $500 million, or the amount that is refinanced if that amount is greater.

Last, I would like to provide color on the guidance we have provided for the rest of 2021. 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. As Brian discussed earlier, due to these uncertainties related to GCU online enrollment being caused by COVID-19, we have provided ranges for revenue, operating margin, and earnings per share for the last two quarters of 2021, with the high end of the range being if our counselors that work directly with school districts, hospitals, businesses, and counseling centers can return to pre-

COVID levels over the next few weeks, and the low end of the range assumes that their work remains at the April, May, July levels through the rest of 2021.

We have also slightly reduced revenue per student in the second half of 2021, as student's days and class behavior returns to pre-COVID levels and due to a slight mix shift. We have raised our enrollment and revenue expectations related to the GCU ground traditional campus, as we currently anticipate residential enrollment will exceed our initial projections. The ground enrollment growth rate continues to be pressured by a significant decline year-over-year in professional studies students, working adults that take courses on ground, primarily at GCU's traditional campus, as we have just started enrolling for these programs after a pause of almost 18 months due to COVID, and most of these students have now graduated out of their programs.

As it relates to GCE/Orbis, one new off-campus classroom and laboratory site opened in the spring, two additional sites opened in the summer of 2021, as expected, and we are hopeful to open one additional new site in the fall. The two new MLS programs will now open in 2022. We are currently anticipating that 2022 will have between 8 and 11 openings, depending on the timing of regulatory approvals.

On the expense side, we have not changed our expectations for the last six months of 2021. Thus, the operating income ranges correspond directly to the revenue ranges. We did make $5 million of contributions in lieu of state income taxes in July 2021, which resulted in an increase – which will result in an increase in general and administrative expenses in the third quarter of 2021. These contributions are dollar-for-dollar reduction in our state income taxes, 75% of which is recorded as a reduction in our effective tax rate in the third quarter, when the payment is made, and 25% in the fourth quarter.

Thus, we have adjusted our expected effective tax rate to 20.7% in Q3 and 22.8% in Q4. All remaining stock options were exercised during the first quarter of 2021, and the majority of the outstanding restricted stock vests in the first quarter of each year. Therefore, there will not be any excess tax benefits the rest of the year. We have adjusted the weighted average shares outstanding amount and the interest income amount for the second half of 2021, using the assumption that we will repurchase $500 million of additional stock through October 15, and that $500 million of the Secured Note will be repaid on October 15.

If the university does not refinance the note by this date, interest income will be higher than what is in current guidance, but is likely that interest expense will be higher as well, as it is our intention to use our ability to borrow against the Secured Note to repurchase stock. If the university is able to repay an amount greater than $500 million, this will result in less interest income and less weighted average shares outstanding than what is in the guidance we have provided.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question is from the line of Jeff Silber from BMO Capital Markets. Your line is open.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Thank you so much. Wanted to focus first on the new enrollment trends at Grand Canyon University online. You were very thorough in identifying the areas that you think caused this. But if we step back, do you think there may be more of a secular issue in terms of specifically new competition? There's tons of schools that are out there really expanding in graduate programs online. I'm wondering if you're seeing any impact of that.

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

A

If you look at the data with regards to searches and other marketing data, you are seeing a lot of institutions decline in the return that they're getting. We are not seeing that. But we've moved away a lot more than other people from that. And so, greater than a third now of the new students that start at the university are starting as a result of that direct work we're doing inside of school districts, hospitals, and those kind of places. And so, I agree that there's more competition. I agree that there's more competition for the best students, which are graduate students. But we get a big percentage of our graduate students from that work that we do directly inside hospitals, school districts, companies, counseling centers.

And so, we always talk about the 50% of our students being grad students, and we flipped 2 percentage points during this pandemic off the high number. But we still believe, and we're seeing evidence of it, because the – as schools are opening up, hospitals are opening up, we are reengaging. And we see information meetings filling up, and there is going to be potentially some even pent-up demand there. So, I understand that that would be a trend you would see if you're just looking at this thing with results you can get from certain places. But we still believe that we – because of our strategy, we'll be back to normal fairly soon and won't be impacted the way others are.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. That's very helpful. Obviously, the lead story in the news, or one of the lead stories is the ramping up of the Delta variant. Are you seeing any impact of that maybe in terms of students on the ground reluctant to come back to school because of this?

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

A

No, it's the opposite. There's a – I'm a long way away from those days, maybe even as far as you are. But there's a fearlessness that is a little bit the opposite from a ground campus perspective. I get emails daily from parents who are saying, please don't give in to the hysteria. Our sons and daughters are expecting a fully open campus and they expect to be back and have all the experiences that GCU is known for, and so please hold the line and make sure that happens.

And so if anything, we have seen an increase in that. Now, we are not demanding that they have vaccine, that the students be vaccinated. We're working really hard with our faculty, with our security, with our cooks, with our landscaping personnel, where there's older people, to get as close to 100% vaccination as possible. And then we have vaccinations available and very convenient, and we will encourage students to use them. We also have testing procedures, and we have quarantine strategies. And so, we're not taking it lightly.

But on the other hand, I think we're in the boat of we've got to learn to live with this, and we've got to open schools up, and we've got to open businesses up, and we got to keep the economy open. And the vast, vast majority of the students that are coming here in the fall are in that category of thinking. And so, we're excited about it. We're not taking it lightly. I'm obviously nervous about it. We'll be watching it every single day. But I really like our chances to have a very successful semester. And part of that is based upon how we finish the spring semester. We've finished with very, very few active positives on our campus. And so, we're optimistic about what's going to happen. And the vast, vast majority of our students and families are extremely optimistic.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

All right, great. I appreciate you calling out my age. And I'll jump back in the queue as well.

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

A

Sorry, Jeff.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

No worries.

Operator: Your next question is from the line of Jeff Meuler from Baird. Your line is open.

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

Q

Yeah, thanks. So, Brian, I think you just said this, but just want to clarify, so the two-thirds of new enrollments that typically come from the other marketing channels besides the direct counselors of that partner, is that two-thirds – they've been hitting the targets year-to-date and that's continuing recently, is that correct?

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

A

Yes. Yeah, that's part of our thing has not fallen off. But I think part of the reason it hasn't fallen off is that we don't feel a need to spend more money and get decreasing results as a result of that. If you watch, and obviously we can watch it, but if you watch the spending patterns of some of our competition, and they keep spending more and getting decreased results as a result of that, and we haven't had to do that. And I think that's reason that we – that that part of it hasn't diminished.

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

Q

Got it. And then so just – so the plan is you're going to buy back at least $500 million of stock, and that's regardless of if there's any refi of the debt. And then depending upon the amount of the refi of the debt, you might buy more than that. Is that correct?

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

That's correct.

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

And can you give us an update on like – because it sounds like it's still potentially several months out until this would close, so where is the university with meeting with debt investors or just what's the calendar for that process?

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

My understanding is the university continues down that process. They have received some proposals – different proposals from different parties on ways to refinance the entire amount that's owed to us, and they're working through those proposals with the various parties and ultimately will move forward with one of those. And they are optimistic not only that they'll get it done, but that they'll be able to refinance by that October 15 date. Now, could it get pushed a little bit? I mean, that's obviously possibility, but I think they're very optimistic, and thus, that gave the confidence to the GCE board to approve this share repurchase plan for the second half of the year.

They think that – a couple things, one, that the stock is undervalued currently; number two, that they're confident that the university will get some type of refinance done. And thus, as investors have asked, our plan is to refinance and to take the proceeds from the refinance and use it to buy back stock. And in the meantime, if that gets delayed a little bit longer, then we hope we will use our own cash reserves and our own financing opportunities to buy back stock that then will then get paid off as soon as the refinance proceeds are received.

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

Yeah, I can reinforce that, Jeff. We're at a point now where it's evaluating between options. So there are a number of options...

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

Got it.

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

...and there's an evaluation process taking place.

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

My understanding is the enthusiasm for this refinance among various debt holder – potential debt holders is very, very strong. And it should be, because the university has an incredible asset here with their ground campus that was recently valued at over $2 billion. And so, it's a fairly low debt-to-asset ratio. And so I think there's a lot of enthusiasm for that.

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

Q

Got it. And then, just finally on Orbis, just it's 13% growth, considering that it includes the GCU students, it seems kind of low to me or below what, I guess, you aspired Orbis to grow at, at the time of acquisition. And I know we've been in a pandemic, there was – I'd love any kind of what is general commentary on Orbis's growth. And you gave us Nursing, and then there was something about occupational therapy that I didn't totally understand. I think there was an issue with one partner that was an OT partner, but I don't know if it was broader than that one partner. Thanks.

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

A

Yeah, currently, Orbis has one occupational therapy partner. And that enrollment for that occupational therapy program is actually down year-over-year. The partner requested that they stop enrolling new students to allow the existing students to get through their clinical-type rotations, given the COVID situation. And so, they're back, I think as of September, they'll be enrolling new students again into occupational therapy. But in the meantime, you've seen a decline year-over-year. So if you exclude that occupational therapy program, Orbis's Nursing programs, which is the primary component, is up 19% year-over-year, which is a little bit lower than our long-term objectives and it has completely everything to do with just the timing of site openings. We're very excited, and Brian touched on this, about the site openings in 2022, and the hope is that that will accelerate their enrollment growth. Anything, Brian, to add to that?

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

A

Well, just, yeah, some of the driver of the success has been in the larger markets. And so Chicago was a big driver. Some of the markets that were opened, and recently have been in smaller markets, but there's some very big markets coming: Houston, Dallas, Southern California, New York, which really bodes well for the next two, three, four years. Those markets I just mentioned, they are going to be capable of multiple site openings, as opposed to some of them that we've just – that we've recently opened, which just [ph] starting market is (37:45) large enough to do that.

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

Q

Got it. Thank you.

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

We've 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 for your time.

Operator: Thank you, speakers. Ladies and gentlemen, this concludes today's conference call. Thank you all for joining. You may now disconnect.