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Grand Canyon Education, Inc. (LOPE)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Q4 2019 Grand Canyon Education Earnings Conference Call. At this time, all participant lines 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. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Dan Bachus, CFO. Sir, you may begin.

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

Thank you. 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 statement. 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 fourth quarter conference call. We are now almost 20 months into our existence as an education services company. I want to do two things on this call: first, talk about how we think GCE should be positioned in the macro environment within higher education; and second, review the financial results that have been produced to date.

As I've indicated previously, it is GCE's goal to help address the real issues within higher education. I believe to have a long-term future as an education services company, you must provide solutions to those challenges. The challenges are; one, college costs too much; two, students are taking on way too much debt relative to their income earning potential; three, as tuition goes up, diversity on college campuses go down; four, bachelor's degree should not take four to six years; five, programs are not tied directly enough to where jobs are; six, there are inadequate counseling and support services especially for first-generation students or those studying at a distance.

We are very excited about GCE's direction relative to the challenges facing students, families and the industries we are serving. In 2020, GCE's 23 partner institutions project to produce over 30,000 graduates, over 11,000 healthcare professionals, 7,700 education professionals, 4,600 in the business world, 3,600 in behavioral health, 2,500 in public service, social science and theology, and 600 in engineering and computer science. These students will graduate with less Title IV debt than the average state and private university students in this country. They will have less than a 6% cohort default rate on student loans will graduate from programs that passed the previous debt to income earning ratios that were part of the gainful employment rules and less than 75% of the revenues that are generated will be from Title IV programs.

GCE has four pillars in its business and the first three are addressing these issues head on, and we believe eventually the fourth pillar will as well. Grand Canyon University Online had 82,540 students online as of December 31, 2019, and in the quarter just completed, new students grew in a mid-single digits while total students grew 6.5% year-over-year. GCE's core business margin expanded 150 basis points for the year just completed with the net tuition increase that averaged less than 1% at GCU online. This is important because GCE will continue to invest heavily in a new online management platform, is investing in over 100 software applications to provide operational support for students and its faculty and will assist GCU in rolling out more than 20 new programs in 2020.

The GCE/GCU partnership is a strong proven model that produces high-quality outcomes and GCE can produce similar results for other institutions. What has been demonstrated in the first 20 months is that the comprehensive operational services offered in exchange for the revenue split is working better than expected for both sides.

The second pillar is the GCU traditional campus. The traditional campus started the fall semester with approximately 21,000 students, of which approximately 13,000 are residential, which is up 9.3% over the previous fall. GCU's campus is profitable without raising tuition in 11 years and has invested over $1.5 billion in academic and other campus infrastructure. The campus currently ranks as the 19th best college campus in the nation according to Niche.com. This is a remarkable accomplishment given that the university really started to build out its campus only eight years ago, receives no state tax subsidies and has no meaningful endowment or donor base.

There were some observers who predicted that the GCE/GCU partnership would produce good financial results for GCE and would not work financially for GCU. They were very, very wrong. The university has publicly made available its financial statements for the year ended June 30, 2019 that show the university had over $325 million in cash on its balance sheet, had net assets over $387 million at June 30, 2019, and its cash flows from operations for the year ended June 30, 2019 were over $123 million. The positive results for the university continued in the six months ended December 31, 2019.

Based on interim financial statements provided to us by GCU and which GCU has authorized us to discuss, university's cash balance at December 31, 2019 was approximately $250 million, its net assets grew to almost

$400 million, it generated over $100 million in cash flows from operations during the six-month period while funding all of its CapEx through its own cash reserves, while also paying down $100 million on its debt. The university plans to continue using its excess cash to fund its continued growth and pay down its debt. This was all done without tuition increases on the ground campus and a less than 1% increase in net tuition on its online campus.

The third pillar of the GCE strategy is Orbis. This is the strategy most misunderstood and most underestimated by investors. This purchase greatly accelerated GCE as an education services company, and it addresses issues that have hurt many of the other OPMs. Orbis fits in the GCE strategic plan because it originated as a result of a huge marketplace need. US will need 1 million additional nurses in the next five years alone as well as thousands of nurse practitioners and occupational therapists and it's using a very innovative delivery model.

Orbis, like GCU online and GCU ground, will be profitable. The profits will be reinvested into Orbis to create more opportunities both in terms of locations and adding programs to current locations. Self-sustaining economic models that don't rely on taxpayer subsidies or philanthropic donations are a huge benefit to the economy and state budgets.

Orbis' growth has been greatly accelerated as a result of GCE's considerable support. Since we bought Orbis, six university partners have been added and as of today, we are up to 23 total university partners. At the end (sic) [date] of the acquisition, we had 18 sites opened at 11 of Orbis Education's university partners. As of today, we have expanded to 23 site locations opened at 14 of Orbis Education's university partners.

Additionally, we plan to open 11 site locations in the next 12 months – 7 in the fall of 2020 and 4 in the spring of 2021, which would put us at 34 locations by the spring semester of 2021.

The creative delivery model, which combines on-ground lab work with online delivery of course content is producing tremendous outcomes for students, the healthcare community and university partners. Thousands of Americans will be able to pursue their dream of becoming healthcare professionals, making tremendous contributions to the healthcare industry because of these partnerships. GCE will continue to support Orbis with capital, marketing and operation support including advanced technologies.

In terms of metrics, the graduation rates are approximately 90% and the first-time pass rates on the NCLEX exam are consistently over 90%. GCU's nursing program the last three quarters produced over 95% first-time pass rates. Orbis revenues grew 30.2% on a year-over-year basis for the three months ended December 31, 2019 and 42.7% on a pro forma basis including the 21 days in January prior to our acquisition for the year ended December 31.

Enrollment on a comparable basis have grown 24.3% year-over-year as of December 31, 2019. Every new location opens represents an opportunity for GCE that has greater potential than most other OPM contracts in the space. Each location opened requires less than a $3 million investment and will turn profitable in its second year of operation eventually producing greater than 30% margins which can be reinvested into adding more programs at the site and opening more sites. The goal is to be in 70 locations in the next seven years.

To summarize, we are very focused on this Orbis opportunity for four reasons. One, the huge need the country has for healthcare professionals especially baccalaureate-prepared nurses; two, the opportunity to grow into 70 potential locations; three, the locations will become profitable in just their second year of operation; four, the relatively small amount of investment needed to get locations up and running.

GCE's fourth pillar is to find three or four partners interested in a more comprehensive arrangement. We are working hard at this pillar but will continue to be selective. The model of many partners, many low-enrolled programs at very high price point is not interesting to because the model doesn't fundamentally address the real challenges identified earlier in higher education. We believe we can add tremendous value to university partners in the Midwest and Northeast, and are in dialog with a number of them. Most of them have had partners in the past and they have not been successful with those programs.

Our strategy of front-end services combined with robust back-end services is clearly a differentiated approach. The model we are suggesting is proven on a very large scale. GCU's hybrid campus, having large student bodies in both major markets, leveraging a common infrastructure has been successful in unprecedented ways. High quality students producing great outcomes at great value, complying (sic) [combined] with making huge investments to constantly upgrade infrastructure is a matter of fact, not opinion. Everybody that visits the GCU campus goes away very impressed. Future models of higher education should be based on the results they produce and not on whether they fit into preexisting structures.

Our other three core pillars are performing well, have great potential, and as a result, we have the ability to be selective. If we find the right comprehensive partner we will sign an agreement. If you look at the contracts of other OPMs in the space, those contracts would most likely be dilutive rather than accretive to our current plan. In addition, the huge up-front investments of those arrangements would place significant risk on to our current business.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on our 2019 fourth quarter, 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 December 31, 2019. The non-GAAP amounts exclude the tax affected amount of the amortization of intangible assets and the loss on transaction amounts included in our consolidated income statement. The amortizable intangible assets acquired in the Orbis acquisition totaled $210.3 million and amortization expense in the fourth quarter of 2019 was $2.2 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 December 31, 2019 is $1.63. Service revenue was slightly below our expectations in the fourth quarter of 2019 due to slightly lower revenue per student from GCU due to timing differences and online student start and a slightly higher scholarship rate as the number of partnerships continues to grow. As we have discussed previously, overall enrollment growth is being pressured by the fact that professional study students and ground commuter students are flat, slightly down year-over-year.

Our revenue per student continues to increase as we continue to see very encouraging growth in the areas of our focus including online, residential and Orbis enrollments where revenue per student is the highest. In addition, Orbis enrollments at year-end were down from Q3 due to the timing of graduation as it relates to our 60-day enrollment count methodology. These trends have been included in 2020 guidance.

Our effective tax rate for the fourth quarter of 2018 was 18.6% compared to 19.5% in the fourth quarter of 2018, and our guidance of 22.6%. The lower rate is due to favorable adjustments related to state income taxes, partially offset by slightly lower excess tax benefits of $0.1 million in Q4 2019 from $1.2 million in Q4 2018. $0.08 of the earnings beat is due to the lower effective tax rate.

We repurchased 201,522 shares of our common stock in the fourth quarter of 2019 at a cost of approximately $18.5 million and another 114,336 shares at a cost of $9.5 million subsequent to December 31, 2019. We had $52.3 million available under our share repurchase authorization as of December 31, 2019. Our board recently increased our share repurchase authorization by another $75 million.

Turning to the balance sheet and cash flows, total unrestricted cash and short-term investments at December 31, 2019 were $143.9 million. GCE CapEx in the fourth quarter of 2019 including CapEx for new Orbis partner sites was approximately $7.2 million or 3.3% of net revenue. CapEx for the year was $22.4 million which fell within our anticipated range of between $20 million and $25 million. We anticipate that amount growing to between $30 million and $35 million in 2020 due to the build-out of the 11 Orbis partner locations.

We provided no funding to GCU for capital expenditures in the fourth quarter of 2019 but received a payment of $40 million on the outstanding loan in October. As a reminder to investors, the note due from GCU is secured by all of its assets. Given this, it is very difficult for the university to get financings from any other source than GCE.

GCU has informed us that it has the ability to fund its capital expenditures going forward. But under the agreement, we are required to provide them funding as they want to borrow for short-term cash flow purposes.

Last, I would like to provide color on the guidance we have provided for 2020. The guidance we have provided continues to be non-GAAP as adjusted net income and as adjusted diluted income per share as we exclude the amortization of acquired intangible asset. As you have probably noticed, we have again provided estimates for each quarter of 2020.

We do this because our financial results including GCU and the partners that Orbis services are very seasonal. Below we have again provided total enrollment guidance for 2020, but our focus continues to be on revenue and not enrollment as we focus on growing the number of students to drive the most value to our institutional partners.

Total enrollments are expected to be 108,000, 96,300, 116,100 and 114,100 at the end of the first, second, third and fourth quarter, respectively. The underlying assumptions behind the total enrollment growth consists of total online enrolment growth that ranges between 6% and 6.5%, residential student growth of approximately 10% in both the spring and fall terms, flat to down year-over-year professional studies, commuter students and traditional summer school enrollment and Orbis enrollments of 4,000 at the end of the first and second quarters, 4,700 at the end of the third quarter, and 4,500 at the end of the year.

Online enrollments will be pressured in the first half by year-over-year increases in graduated students that exceed total enrollment growth. But we anticipate that this will moderate in the second half of the year and thus, year-over-year growth should increase in the second half.

We estimate that Orbis revenue will be $115.8 million in 2020. Orbis revenue on a pro forma basis in 2019 was approximately $89.1 million including the $3.3 million in revenue not recognized in our financials given that the close of the transaction occurred on January 22, 2019. Thus, on a pro forma basis, we anticipate Orbis revenue will be up 30% year-over-year. We estimate the revenue per student from our contract with GCU will be up year-over-year primarily due to the growth in residential students.

On the expense side, we anticipate that core GCE business will see flat margins year-over-year, while Orbis will be EBIT zero excluding intangible amortization.

Last year, we had projected the core GCE business margins would be up 30 basis points year-over-year, but instead they were up 150 basis points, exceeding our expectations by 120 basis points. The higher-than-anticipated margins in 2019 were primarily due to our ability to leverage our head count cost at a rate that was better than expected.

In addition, we had a very favorable year in employee benefit costs. Recent trends suggest that we will see a 30-basis-point increase in benefit costs year-over-year. In addition, increased investment is being made in technology, head count and counseling services that will put pressure on GCE margins.

Orbis EBIT excluding the intangible amortization in 2019 was approximately $5.6 million, but it's pro forma EBIT was approximately $2.7 million as it was approximately $2.9 million during the period in January prior closing. Orbis' decline in EBIT year-over-year is due to the cost that will be incurred in 2020 associated with the 11-site openings in fall 2020/spring 2021.

We anticipate technology and academic services, counseling services and support, marketing and communications, and general and administration expenses will be approximately 13%, 28.4%, 18.5% and 5.6% in net revenues, and thus, consolidated as adjusted operating margin will be 34.5% in net revenues.

We estimate interest income on a note from GCU will be approximately $59.2 million, down slightly from $59.3 million in 2019. The university might further pay down the note in 2020 but further paydowns are not factored into our guidance. We estimate interest expense will be approximately $5.6 million compared to $11.3 million in 2019 due to our pay-downs on our outstanding loans. Other interest income will be approximately $2.4 million. Our guidance assumes an effective tax rate, excluding contributions made in lieu of state income taxes, to be 23.8% for the year, 23.3% in Q1, 24.2% in Q2, 24.2% in Q3 and 23.6% in Q4. Our effective tax rate will be up significantly from 2019 and will be more in line with our statutory rate.

In 2019, we received a significant tax refund in the first quarter and favorable state tax adjustments in the fourth quarter. We do not anticipate any similar refunds in 2020. In addition, we anticipate that we will receive a significantly lower excess tax benefit deduction in 2020 as compared to 2019 due to lower stock option exercises and a lower stock price. If contributions in lieu of state income taxes are made in the third quarter of 2020, that will have the effect of increasing our operating expenses and lowering our effective tax rate in the second half of the year.

The weighted average shares outstanding amount includes stock that was repurchased through today. Although we might repurchase additional shares during 2020, these estimates do not assume repurchases other than those already made.

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] Our first question comes from the line of Alex Paris with Barrington Research. Your line is open.

Chris Howe
Analyst, Barrington Research Associates, Inc.

Q

Good afternoon. This is Chris Howe sitting in for Alex. I appreciate all the color provided on this call. First, I wanted to focus on the pillar of Orbis. You mentioned the seven sites planned for the fall of 2020 with four sites in the spring of 2021, as you accelerate towards 70 locations. As we look at your guidance for revenue as being up 30%, how should we look at the contribution from these seven new sites in the fall of 2020 versus potential new partners? Are there any new partners that are being considered, or is this excluding any additional partners in fiscal year 2020?

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

A

Well, so the revenues in 2020 for those seven new sites is pretty minimal because we only have the first cohorts at those seven locations that would be revenue in the fourth quarter, little bit in the third but mostly in the fourth quarter of 2020. But the revenues will grow significantly as those – we have second, third, fourth cohorts into 2021 for those new locations.

In terms of additional partners, Orbis continues to sign additional partners. Those additional partners, obviously four of those will be opening in spring of 2021. And then our expectation at this point is we'll have additional openings in the fall of 2021. But at this point, it's too early given the regulatory and other things that they have to go through to predict exactly how many locations will open in fall of 2021. Anything to add, Brian?

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

A

The only thing is that the difference between a new partner in a new location and taking an existing partner in a new location, the expense associated with that, the difference is very little. There'll be a little bit more expense when you take a new partner in because their curriculum has to be approved and you got to take steps with the state board. But it's basically [ph] $1.5 million (00:25:20) to build the site and another a little bit less than [ph] $1.5 billion have lost (00:25:26) in terms of marketing and recruiting the new students. But the cost whether it's taking a new partner in or an existing one is, there's very little difference in that.

Chris Howe
Analyst, Barrington Research Associates, Inc.

Q

That's great and very helpful. And shifting to the fourth pillar, the ability to add three or four new partners whether it be in the Midwest or Northeast. Can you share some color as to how your offering perhaps has been enhanced in this past year, as you continue to analyze the mix of your pipeline? And has there been any change in the mix of your pipeline in regard to whether it be faculty oppositions, faculty acceptance or just some additional color on where you stand as far as your progression with some of these contracts, potential?

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

A

Yeah. There's really two things that we have to overcome. And the first thing is very surprising, and it is the result of what's happened in the last six months. We are less and less likely to do a deal for the sake of doing a deal and launching something because of how well we're doing with other three pillars. With the chances [ph] that something (00:26:46) a new deal that is not a great deal to lose our current momentum, we don't want to do that. And so, our own success is working against that fourth pillar a little bit.

The second thing that you have to overcome is, their understanding that we won't do it unless it's a comprehensive approach that scales the number of students, so that something fundamental about their business plan changes. We're really focused on those problems that are facing higher education. If you look what a lot of OPMs are doing, they're just charging more. They're not charging less. There is no benefit in this for students' families – and families. The way we're thinking about it is, if you find a partner where you can scale an online program and then you can leverage the infrastructure of the university and the infrastructure of GCE in a way that eventually the economics works better for that institution and they can actually lower tuition, those are the kinds of things we're trying to make happen in that kind of arrangement.

When a university starts thinking about things like admissions, transcript evaluation, schedule building, financial aid, all of those things, they get nervous about turning that over to somebody. Now we have to walk through all the systems that we use. The fact that we've had these major audits with zero findings based upon Title IV, the VA. And so it's a matter of overcoming our own success and it's also a matter of convincing a university that a one-off approach to this is not something that interests us. And then we got to convince them that in order for this to work, you've got to trust us with those back-end functions because without that these things don't work.

And I'll tell you, it's amazing to me. I'm so excited about the Orbis thing because it's amazing to me the number of people that we've talked to that have pervious arrangement with OPM that did not work. And when you look at why they didn't work, it frequently is around the OPM offering a little help up-front, marketing, enrollment, curriculum conversion, not offering any assistance on the back-end, so the university had to add resources on the back-end, which cut in significantly to their revenue split. And the more we watch this, the more that we think that applying the GCU/GCE methodology is really the only way to do it in a scalable way that works for everybody, including students and the families.

Chris Howe
Analyst, Barrington Research Associates, Inc.

Q

Thank you. And as we look at Orbis and the strong position Orbis has with its existing partners, is there a way to think of this as an opportunity for cross-pollination into your three or four potential partners?

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

A

I think, eventually, yes. I think that would be a great way to do it. And we're just going to keep executing. We're going to stay really focused. We're going to stay real focused on continuing to execute at a high level, produce great outcomes, and let the noise out there dissipate based upon our execution. And we're in this for the long run. We want to provide real, meaningful change in higher education, and so we'll be patient.

And we'll let the noise be what the noise is and we'll keep producing results that work for families. One of the things that we like to do is get universities down here to visit our campus and we just open the campus up to them. And what they're amazed at is the loyalty that GCU students have to the institution, and the loyalty the families have to the institution because compared to what they were thinking about before they became involved with us, this deal is so good for them that it's like they've got a new lease on life.

And in so many of – so much of what's going on now in our ground campus is brothers and sisters and the younger friends because they are looking at private university options that are $60,000 to $70,000. They come down here, they look at this campus, they look at the programmatic offerings, they look at the cost, and the word spreads.

And those – that concern that we have as GCU – at GCU now, GCE, a for-profit company helping a non-profit and really taking seriously providing for the greater good is going to become a big part of the story.

Chris Howe
Analyst, Barrington Research Associates, Inc.

Q

Thank you for taking my questions. I appreciate the color, Brian and Dan.

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

A

Thank you.

Operator: Thank you. Our next question comes from the line of Jeff Silber with BMO Capital Markets. Your line is open.

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

Thank you so much. Forgive me, I got dropped off the call. I'm not sure if you've addressed the issue with the Department of Education that you talked about last quarter. I'm just wondering if there's any progress there. Thanks.

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

A

Well, first – thank you for that, Jeff. First thing, we have to always remind people, probably not you but others, 95% of what we wanted, we got. We have a full program participation agreement, and so our students have access to the same Title IV programs as others. There is no restriction based upon growth of the student body. No restriction based upon the growth of programs. And so that's a big deal for us. Having that behind us and having that path now in front of us is a big deal.

The only thing that remains is this discussion about them listing us as a proprietary institution on their website. That's the only – and that's really us and them. This doesn't affect really a lot of what we're doing. We are having, I believe, productive discussions. It's very, I think, important for them to know that we will not accept any designation – number one, it's not true, we're not a proprietary institution, we're a non-profit institution. And we're not going to mislead public about that.

But secondly and most importantly, the university is not going to accept any secondary designation which limits its potentials in the areas of research, grant writing. Our faculty and our students will have the same access to participate in the academy in this country that any other faculty and student has. And accepting a designation that may – might make that [ph] less than (00:34:20) is not something that they're going to do, or in the case of me as the President, not something I am going to do as the President of university.

I think we are making progress. We had a meeting out there. They asked for some responses, we gave it to them. They asked for something else. And we're in the process of doing that. But I hope that at some point, they will say, this thing is working pretty well for students and for families and your neighborhood, et cetera, that we really need to be doing more of this, not less than this. I really hope that the discussion flips to that because I think that with – that's where it should be.

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

Okay. That's great. Appreciate the color. Dan, when you were giving some color on your outlook, I think you said to expect flat margins in the core GCE this year. You called out a number of items as to why. I know you're not giving behind – guidance beyond that, but is that something we should expect going forward if we exclude these onetime items, that margins will continue to expand in GCE?

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

A

I think we'll have to see. I mean, frankly, we're at a margin level from the GCE core business that I think is higher than we thought we would get to any time in the next few years, as I've said. Our business plan has always been to grow the core of GCE margins 30 basis points a year and 30 basis points, that would be five years to get to the [ph] 150 basis points (00:36:02) that we did in one year. And so, I think the question is, can we grow margins, those core margins higher in the future or is it better just to keep those core margins where they are today because we will see significant margin expansion from Orbis over the next few years. And so, I don't know, I think is the short answer, we'll see. But I think you should expect to see margin expansion from the consolidated business in 2021 over 2020 driven by Orbis' growing margin.

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

Okay. That's what I was going to ask, my follow-up question. So thank you for answering that. And just one more quick one. You gave a little bit of color on the enrollment, I guess slowing down a little bit. You went through that a little bit quickly. Can you just repeat what you said what happened in the fourth quarter? I know you gave us some guidance for the year, but just [indiscernible] (00:37:04) color on the fourth quarter, that'll be great.

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

A

Yeah. Actually our enrollments were generally in line with our expectations for the fourth quarter other than Orbis, was about 200 lower than we expected. It had to do with the timing of graduations. We thought, the graduations we count, the way we count enrollment in the 60-day count at the end of the year. And so, the third and fourth quarter for Orbis would be roughly the same. It turns out the way we count them, they were out of our count methodology by the end of the year. And so, that didn't affect revenue at all, but it did affect those enrollments, but other than that, enrollments were generally in line with our expectations. The new starts were also for the quarter right in line with our expectations. They just actually came a little bit later in the quarter than we had forecasted which had a very minor impact on revenue per student. But other than that, the quarter was right in line with our expectations.

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

Okay. Really appreciate you clarifying that. Thanks so much.

Operator: Thank you. Our next question comes from Jeff Meuler with Baird. Your line is open.

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

Q

Yeah. A follow-up I think on the second question there from the other Jeff. So, how are you thinking about Orbis on a multiyear basis? It sounds like you're planning on expanding margins after 2020. But, like, is there a way to size up for us how many campuses per year you can open while expanding margins or what Orbis' normalize growth rate can be if you want to expand margins?

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

A

I think very big picture. As long as we open a similar number of locations in 12 months, because it's really not the way that spending works as we've talked about before. If it opens in the fall or in the spring, the costs are all primarily incurred in the calendar year leading up to that.

When we look at fall of 2021/spring of 2022, as long as the number of locations are 11 or less, I think you should plan to see some pretty nice margin expansion. If somehow we go from 11 to 15 which I think is very unlikely, I think you'll have a similar phenomenon to this year where we went from 4/5 locations to 11. But if we open 11 or less which I think is the more likely scenario for that next 12-month period, I think you will see pretty significant margin expansion as you would have seen this year, if we would have just opened 4/5 in that fall/spring kind of period, you would have seen 10-plus-million-dollars' worth of earnings at Orbis in 2020.

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

Q

Okay. And then I know that the mid-single digit online new enrollment is in line with the longer term plan and you're saying it was in line with Q4 and it was similar to Q3. But just on a multiyear basis, you were pretty nicely outperforming that for a while. And I get that your scale level is getting bigger now, but I would just love any perspective on are there fewer programs being launched over the last year than there were a few years ago. Is it scale challenges? Is there anything with marketing efficiency, impacts from the Department of Education's decision?

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

A

We continue to do this very strategically. There is a huge focus on quality, quality students in high-demand programs, high graduation rates and we'll continue with that. What you'll see, and we've been saying this, the spread between enrollment growth and revenue growth is going to continue. And eventually, I think for investors this should be primarily about revenue and earnings because we're going to continue to focus on high-quality students, putting them into high-quality programs that are going to produce great results from their – for them from a career standpoint.

If we open the floodgate today and say we'll take a bunch of high-risk 30-year-old students who want to come back to school and try it again and those students produce low graduation rates, stack up debt, don't get any payoff, that – that way to grow based upon that level of churn is not something we're interested in. And so our marketing spend as a percent of revenue is about the same. And the productivity is about the same. And so I think as this thing moves forward, you're going to see us continue to focus on residential students on our campus, to focus on graduate students online and to focus on Orbis students and keep pushing that revenue number up.

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

A

Hey, Jeff. Only other thing I would add is obviously mid-single digits isn't a finite number. Our goals are to grow new starts greater than 5%. So, the numbers we're talking about are still pretty significant given our overall size. Our expectations have not declined at all. But mid-single digits isn't – like I said, there's a range there and our goal is to be at, I guess, the higher end of that mid-single digit range.

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

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Okay. Got it. Thank you.

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

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

Operator: Ladies and gentlemen, that concludes today's conference. Thank you for participating. You may now disconnect. Everyone, have a wonderful day.