Corrected Transcript

27-Oct-2022

Grand Canyon Education, Inc. (LOPE)

Q3 2022 Earnings Call

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

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

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for standing by. Welcome to the Grand Canyon Education's Third Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

And I would now like to hand the conference over to your first speaker today, Dan Bachus, Chief Financial Officer at Grand Canyon Education. Go ahead, Dan.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

Good afternoon. Joining me on today's call is our Chairman and CEO, Brian Mueller. Please note that many of our comments today will contain forward-looking statements that involve risks and uncertainties. Various factors could cause our actual results to be materially different from any future results expressed or implied by such statements. These factors are discussed in our SEC filings, including our annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K. We undertake no obligation to provide updates with regard to the forward-looking statements made during this call, and we recommend that all investors review these reports thoroughly before taking a financial position in GCE.

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

Brian E. Mueller

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

Good afternoon and thank you for joining Grand Canyon Education's third quarter fiscal year 2022 conference call. GCE had a very good quarter, exceeding enrollment expectations, exceeding revenue guidance at midpoint by $420,000, and producing a $0.15 beat on its adjusted diluted earnings per share guidance at midpoint. Given how most of higher education is coming out of the COVID years, these are excellent results. Most importantly, GCU online produced new enrollment growth in the mid-teens over third quarter prior year, and that momentum is expected to continue in the fourth quarter.

I want to begin by taking a step back to explain why this is happening and briefly review what has happened since the GCE-GCU transaction took place four years ago. I have often said that in the past, small and elite has won the day in higher education and especially in areas like U.S. News and World Report Rankings. But in the future, it will be large, scalable, flexible, offering education across the adult life span and using technology to build as many delivery models as is necessary given the nature of the content and skills that need to be learned.

GCE has invested approximately $300 million, producing its own learning management and administrative system that allows it and its partners to manage over 5,600 full-time and adjunct faculty, 116,000 students, and over 300 academic programs, emphases and certificates across four delivery platforms. This system has automated processes, including admissions, transcript collection and evaluation, schedule building, financial aid processing, faculty recruitment, faculty assignment and payroll, content acquisition, assessing learning outcomes, teacher placement, counseling, and social work internships and the list goes on.

The administrative capability of this system allows faculty and students to focus on the learning, which is still in a small group instructor-led process that is highly interpersonal, collaborative, focused on writing, critical thinking, problem solving and produces outstanding outcomes. GCE currently employs over 5,300 professionals as it continues to build out its capabilities to grow faculty, students, programs and delivery platform for its university partners.

Leveraging this infrastructure has allowed GCE's partners to expand programs that are critical to the economy, maintain tuition levels in a period of rapid tuition increases across the country, and make access to higher education affordable to all socioeconomic classes of Americans without any burden on the taxpayer.

In the four years since GCE has become a service provider, it has helped its partners accomplish the following. In that time, GCE has helped Grand Canyon University graduate 118,565 students, 32,287 in education, including 14,629 first time teachers, at a time when teacher shortages have created a national crisis; 34,755 students in nursing and healthcare professions, including 1,553 licensure nurses at a time when there is a huge shortage of nurses; 22,435 in the College of Humanities and Social Sciences, including thousands in counseling and social work where there are also huge shortages.

The College of Business has become one of the largest business schools in America and has produced 20,207 graduates. The College of Science, Engineering and Technology has grown by 200% and provided 4,118 graduates. The Doctoral College, Honors College and College of Theology also continue to grow. The numbers that I have just cited have all happened in the last four years since GCU has become a non-profit institution and GCE has become an education services provider.

Our partnership with GCU has given it the ability to invest almost $500 million additional dollars in academic and residential life infrastructure for its ground traditional campus, bringing the total investment to almost $2 billion. Currently, this campus is ranked 17th in the country by Niche.com. Very importantly, GCE has assisted GCU in opening 135 new academic programs, emphases and certificates during the last four years. 13.7% of the new students enrolled in the third quarter enrolled in these new programs. During this time, GCU has not raised tuition on his ground traditional campus with only nominal increases in certain programs online. As a result, GCU students take out less debt than the average state university student. GCU students take out only 50% in parent loan amounts compared to students at our three state universities. GCU students have a 1.5% cohort default rate on student loans compared to the most recently released national average of 2.3% and a 90/10 calculation of 66.2%.

In addition, GCU has accumulated $620 million in cash reserves, while going through with annual salary increases every year for all faculty and staff. Compared to the declining enrollments and negative financial trends in higher ed across the country that accelerated during COVID, this model has produced significant results for GCU, the State of Arizona and the country. I am also pleased to announce that Grand Canyon University was ranked as the third best employer in Arizona in the 2022 Forbes America's Best Employers by State Report.

During this time period, GCE has established 26 additional university partnerships. These partnerships, along with our partnership with GCU, have created 35 locations to produce healthcare professionals especially baccalaureate prepared nurses. This is extremely important work since the country is expected to need 1.3 million additional nurses in the next five years' alone.

The number of existing and new partners will eventually lead to 80 locations across the country. During the past four years, 9,044 students have graduated from our other university partners ABSN or OTA programs. I wanted to include this brief summary because there is currently a lot of discussion about the future of higher education.

Regardless of political or ideological positions, the discussion should focus on where the economy is going and where are the new jobs and careers are going to be. Models that can scale and offer opportunities for access to all socioeconomic classes of Americans at no expense to the taxpayers should be supported. Critics point to the revenue share model is bad for universities. The past two years have proven them wrong, and we expect in the next year this will become even more apparent. In inflationary periods like the one we are currently experiencing or when demand declines as it has, GCE, as the service provider, absorbs the majority of the financial risk. And our expertise, technology and processes have allowed our university partners to continue to benefit during these challenging times.

Now, I want to review the four pillars or delivery platforms of Grand Canyon Education. First, GCU's traditional campus saw an increase of 8.9% in new students in the fall of 2022 over prior year, an increase of 8% in total ground for additional enrollment and an increase of 10.5% in residential enrollment. Approximately 70% of ground traditional students now live on campus. The average incoming GPAs of the 2022/2023 class rose to 3.6%. In the prestigious Honors College has grown 8.3% year-over-year, with average incoming GPAs of 4.1%.

The retention of returning students this fall was better than expected, with a larger percentage of those students choosing to remain on campus, resulting in the university having to turn away at least 200 new students due to lack of beds. This, in spite of the fact that the university built two new residence halls and repurposed a residence hall that was used to house prospective students, so in essence, added three residence halls. These are remarkable results, given the fact that undergraduate enrollment declined by 4.2% nationally between the fall of 2020 and the fall of 2022 where, during this same period, GCU's ground traditional enrollment increased by 18.3%.

The quality and the relevancy of GCU's academic programs, the low class sizes and support of its faculty that has less than a 5% turnover rate, the quality of counseling services, the 20 advisory boards with over 500 companies represented who are creating internships and employment opportunities for GCU students and the very affordable tuition which hasn't been raised in 15 years are all important contributing factors.

I also want to mention, unlike the national trend, over 2,600 of the 9,300 fall 2022 new students this year will be first-gen college students. The average incoming GPAs of these first-gen students is 3.55% or almost identical to the incoming class overall. These students are largely from the lower socioeconomic strata, but their enrollment at the university, because of the very affordable tuition rate, is going directly against the national trend and is a very positive part of the GCU-GCE story. It is also important to note that GCU is not lowering its admissions requirements in order to increase its student body.

Pillar number two, working adult students attending GCU online. As with traditional students attending universities across the country, 2022 (sic) [2021] saw a downturn in working adult students attending online. Unlike with traditional students attending GCU's campus, we experienced a downturn in online students as well. GCE has worked with GCU on two main strategies to combat the downturn, and we are now seeing positive growth again.

Number one, we have invested in B2B strategies that are well-timed for this post-COVID period. The supply and demand, at least in the short-term, for educated labor has flipped. Since the country has reopened, we are working with over 24,700 industry partners in K-12 education, healthcare, financial services, social service agencies, technology and engineering companies, military bases, et cetera, developing custom strategic initiatives that are helping organizations grow their talent from inside. The number of information meetings scheduled and the attendance at the meetings exceed where we were prior to the pandemic.

Number two, GCE continues to work with GCU to roll out new and relevant programs. Since the transition four years ago, GCU has rolled out 135 new programs, emphases and certificates, 13.7% of new students enrolled in these programs in the latest quarter. This has resulted in the third quarter new online enrollments growing in the mid-teens over the prior year and we are currently projecting new enrollment growth in the fourth quarter to be similar. Based on these trends, we should return to total online growth in the first half of 2023. It's important to note that this return to positive growth has been accomplished with no loss of strength in the quality of GCU's online student body, and as a result, no degradation of the quality metrics, including good graduation rates, low cohort default rates, and continued low student debt levels.

Next, I would like to discuss GCE's third pillar, its healthcare partnerships. Short-term, COVID had a negative impact. Hospitals were extremely busy and preoccupied with COVID patients, and many clinical placement opportunities were cancelled. Despite these very significant challenges, many instructional assignments requiring one-on-one clinical interaction in the hospital were replaced by simulations. Some of our university partners requested that we reduce the cohort sizes for 2022 due to concerns about the lack of clinical capacity and some of the new sites that we hoped to open, especially in large markets, have been pushed back to 2023.

The growth in this pillar remains below what we had planned, but positive signs are emerging. We were only able to open four new locations between January 2021 and May 2022, but we opened five new locations in the fall/summer of 2022 and are currently planning to open six to eight new locations in 2023. As a recent example, the State of Washington approved the university partner to open its first location in Seattle just a few months ago. And with very limited marketing, we were able to fill the entire cohort for this fall and the spring cohort has a waitlist.

On other sites that we hope to open in the fall of 2023 is with a new partner in New York City that has asked us to assist them with their on-campus cohort as well. We are optimistic that our partner in Southern California will be able to start its first cohort in the fall of 2023, and that our mature locations that have had declines in total enrollment year-over-year will be back to full capacity by the end of 2023.

I'm also pleased to announce that the GCU locations grew 47.2% year-over-year from 286 students to 421, and that their first 71 graduates passed the NCLEX examination with a 100% first time pass rate. This is extremely important because GCU would ultimately like 40 of our 80 locations to be GCU locations. This relationship is good financially for GCU, but it is also good for GCE given that GCU's national footprint and brand recognition, the excellence of its nursing program and its proven ability to scale.

As with GCU's traditional campus, the long-term environment is very positive for these GCE healthcare partnerships for the following reasons. Number one, the country needs 1.3 million additional nurses in next five years. Nursing programs are very expensive to operate, and given the financial pressures facing many universities, they will be unable to invest the dollars it will take to scale the programs. Two, GCE has the capital to invest in the continued build-out to eventually 80 locations.

Three, in addition to the runway of 80 locations, up from 35 locations currently, our enrollment budget for this coming year is only 50% of the actual spots that exist today. The 50% shortfall is partly due to the lack of efficient and highly supportive prerequisite course environments, regulatory issues creating slowdowns in opening plan locations and the lack of clinical placements due to COVID issues.

GCE is working hard in investing in new enrollment simulation, virtual reality and prerequisite strategies to in the future fill all the spots that are available. This is a transitional year coming out of COVID for the healthcare partnerships. However, there is a 10-year runway that is very promising that creates a winning scenario for students that want into a promising career, healthcare providers desperately needing professional nurses and universities who want a low risk way to help solve the nursing shortage while at the same time creating additional revenue streams.

Last, as discussed on last quarter's call, we continue to work on a new pillar. We're extremely excited because it is desperately needed in higher ed today. In collaboration with our largest partner, GCU, we are developing accelerated certificate programs. Two of the certificate programs are for students who want an efficient way to get into nursing school. We believe there's a big opportunity here. Getting prepared academically to apply to nursing school can be a daunting and confusing process.

But first, a pre-nursing certificate program allows recent high school graduates to stay home and take the first 60 credits of their baccalaureate degree completely online. GCU has worked with GCE to design state-of-the-art science courses that prepare students to apply for a spot in eventually one of GCE's 80 locations. These courses are taught mainly by full-time faculty with a tremendous amount of academic support for the students.

The second certificate program is designed for students who've completed a college degree in another academic area or who have a partially completed degree. The students take mainly the science courses necessary to apply to one of our partners in one of our 80 locations. The first certificate has a synchronous component while the second certificate is being taught completely asynchronously. Given that, eventually, GCE will have approximately 24,000 ABSN slots to our partners across 80 locations. We will need more than 24,000 students in certificate programs preparing for these opportunities. 421 students are taking these pre-nursing courses currently.

The third certificate program began in September and comes out of GCU's newly formed Institute for Workplace Development. This certificate is preparing students for a professional electricians apprenticeship program. This is a 16-credit hour one-semester program heavily focused on the mathematical concepts necessary to prepare for a career as an electrician. This program has been designed with a major industry partner who will offer apprenticeships to the students successfully completing the program. This partner needs 1,000 electricians for their business in Arizona alone. This partner also indicates the country is short a minimum of 100,000 electricians necessary to complete the building projects currently underway.

This fall, 300 students applied for this program. We accepted 40 into the program. An additional 200 have submitted applications for the spring semester and we will accept another 40 in the spring. Once the concept is proven, there is a potential to scale this program in a significant way.

Service revenue was plus $208.7 million for the third quarter of 2022, an increase of $1.9 million or 0.9% as compared to $206.8 million for the third quarter of 2021. The increase year-over-year in service revenue was primarily due to an increase in GCU traditional campus enrollments of 8% and increases in revenue per student year-over-year, partially offset by a decrease in online enrollments at GCU of 4.7% and, to a lesser extent, students in university partner's occupational therapy assistance program of 22.7%.

Operating income for the three months ended September 30, 2022 was $35.5 million and a decrease of $9.8 million as compared to $45.3 million for the same period in 2021. The operating margin for the three months ended September 30, 2022 was 17% compared to 21.9% for the same period in 2021. The operating margin was negatively impacted by the investments that are being made to grow our partners' enrollments.

Net income decreased 37% to $30 million for the third quarter of 2022, compared to $47.7 million for the same period in 2021. Decline in net income was partially due to a significant reduction in interest income between years due to GCU paying off the secured note in the fourth quarter of 2021.

GAAP diluted income per share for the three months ended September 30, 2022 is $0.96. As adjusted non-GAAP diluted income per share for the three months ended September 30, 2021 is $1.02, $0.15 over consensus estimates.

With that, I would like to turn it over to Dan Bachus, our CFO, to give us a little more color on our 2022 third quarter, talk about changes in the income statement, balance sheet and other items, as well as to discuss the updated 2022 guidance.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

Thanks, Brian. Included in our Form 8-K filed with the SEC, we have included non-GAAP net income and non-GAAP diluted income per share for the three months ended September 30, 2022 and 2021. The non-GAAP amounts exclude the tax affected amount of the amortization of intangible assets of $2.1 million in the third quarters of both 2022 and 2021 and the tax effected amount of the loss on fixed asset disposal of $0.5 million for the three months ended September 30, 2022. We believe the non-GAAP financial information allows investors to develop a more meaningful understanding of the company's performance over time. As Brian just mentioned, as adjusted non-GAAP diluted income per share for the three months ended September 30, 2022 and 2021 is $1.02 and $1.11 respectively.

Service revenue was slightly higher than our expectations in the third quarter of 2022 as period end online enrollments exceeded our projections due to the higher-than-expected new student starts in August and September, partially offset by slightly lower revenue per student than expected due to mix. Hybrid revenues were in line with our expectations. The hybrid enrollment growth rate is being impacted on a year-over-year basis due to the timing of site openings, a 22.7% year-over-year decline in OTA enrollment, the closing of sites and a decline year-over-year in the enrollment at some of the mature sites due to the challenges previously discussed.

Excluding enrollments from closed sites, ABSN enrollments grew 7.5% year-over-year, which includes campus enrollments for our New York City [ph] partner (00:22:42). Revenue per student continues to grow on a year-over-year basis, primarily due to increased room, board and other ancillary revenues from GCU's traditional ground students as compared to the prior-year period and the growth in the enrollment for ABSN hybrid students. Service revenue per student for hybrid ABSN students generates a significantly higher revenue per student than we earn on the other students as these agreements generally provide us with a higher revenue share percentage, partners have higher tuition rates, and the majority of their students take more credits on average per semester as they are in accelerated programs.

Our operating margin was higher than our expectations. As I discussed on prior quarters' earnings calls, we have restarted hiring in which head count has been mostly flat since March 2020 for our expected future growth, which is driving increased compensation costs in technology and academic services and counseling services to support costs. But we remain below our head count plan, which is the primary reason the expenses were below expectations.

We also plan for a significant increase year-over-year in travel and employee benefits, as those amounts were significantly lower than pre-COVID levels in the prior year. We also plan for increased clinical costs at off-campus classroom and laboratory sites due to the nursing shortage. This spending has generally been in line with our expectations and the year-over-year difference in the timing of new site openings, all new sites in 2021 were up in the first half of the year, whereas nearly all new sites opened in 2022 were in the second half is having a negative impact on both revenue and expense.

Included in both are 8-K and 10-Q filed today is a detailed explanation of the actual and anticipated impact of COVID-19 on all of our university partners. Our effective tax rate for the third quarter of 2022 was 17.2%, compared to 20.3% in the third quarter of 2021 and our guidance of 18.4%. In the third quarter of 2022, our effective tax rate was favorably impacted by the contributions in lieu of state income taxes made in July 2022. Although the amount of the contributions were the same in both years, the impact was greater in 2022 than in 2021 due to lower pre-tax book income.

We repurchased 581,421 shares of our common stock in the third quarter of 2022, at a cost of approximately $48.2 million; and another 242,747 shares in October. We have $203.6 million remaining available as of today, which includes an increase of $200 million which was authorized by the board in October of 2022, reflecting an aggregate of $1.845 billion under the approved share repurchase plan.

The board and the company intend – the board and the company intends to continue using a significant portion of its cash flow from operations to repurchase its shares, but share repurchases in future years will be less than in 2021 and 2022, as we have utilized all of the proceeds from the repayment of the secured note during the past two years.

Turning to the balance sheet and cash flows. Total unrestricted cash and short-term investments on September 30, 2022 were $108.3 million. GCE CapEx in the third quarter of 2022, including CapEx for new off-campus classroom and laboratory sites, was approximately $11.2 million or 5.3% of service rev. We continue to expect CapEx for 2022 will be between $30 million and $35 million.

Recently, the Department of Education issued a Dear Colleague letter to GEN-22-07 written arrangements between Title IV-Eligible Institutions and Ineligible Third-Party Entities, providing a portion of an academic program. We believe this Dear Colleague letter does not impact our relationship with GCU, as GCU provides all faculty for their courses, pays them, and receives little to no reimbursement from us or any other outside sources for the faculty costs.

We are still working with our other university partners to assess the impact of the Dear Colleague letter, if any, and ensure our partners remain in compliance regarding the programs we partner with them on. We will provide updates on this item if needed, but it is important to note that any contractual changes made as a result would have an immaterial impact on revenues and operating profit.

Last, I'd like to provide color on the updated guidance we have provided in our 8-K filed today. The guidance we have provided in previous quarters was non-GAAP as adjusted net income and non-GAAP as adjusted diluted income per share, as we exclude amortization of acquired intangibles and the fixed asset disposals in our non-GAAP amounts. Included in the outlook section of our 8-K filed today and going forward, our guidance will provide GAAP net income and GAAP diluted income per share with the components to adjust the GAAP amounts to non-GAAP as adjusted net income and non-GAAP as adjusted diluted income per share. And we will continue to provide both GAAP net income and diluted income per share and the non-GAAP amounts with a reconciliation between the two when we report actual results.

So to ensure there is no confusion, the fourth quarter and full-year 2022 EPS guidance included in today's 8-K is – GAAP is $2.18 and $2.19; and for the full-year, $5.61 to $5.62, respectively. Whereas the non-GAAP as adjusted diluted income per share for the fourth quarter of 2022 and full-year 2022 is $2.23 to $2.24 and $5.84 to $5.85 for the full-year, respectively.

We have raised our revenue, operating income and earnings per share amounts for the fourth quarter and the full-year 2022 due to the greater-than-expected new online enrollment growth during the third quarter and October of 2022. We anticipate that ground revenue for the fourth quarter of 2022 will be in line with our expectations and hybrid revenues will be in line with the midpoint of our previous expectations. The relatively small range provided for the fourth quarter relates to slightly differing online enrollment assumptions for November and December.

Our expected effective tax rate for the fourth quarter of 2022 has been increased to 23.0%. Our weighted average share count for the fourth quarter of 2022 has been lowered significantly as the board approved us buying back more stock during the last three months than was anticipated. Although the board recently approved an additional $200 million under our stock repurchase plan, no additional stock purchases are assumed in this guidance.

As was discussed last quarter, the primary reason the board has been so aggressive in its stock buyback activity is that it believes the stock is considerably undervalued. A couple of the key metrics the board looks to, to make this determination is the ratio of enterprise value to adjusted EBITDA and the free cash flow yield rather than the multiples of other education companies as although we can be viewed as being in the same sector, there are few, if any, appropriate comps. On an enterprise value to adjusted EBITDA basis, the stock is currently trading at roughly 9.4%, which is significantly less in the recent S&P average of 16.5%. The average free cash flow yield for the S&P 500 is 2.2%, whereas the company's free cash flow yield is approximately 7.1%.

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

QUESTION AND ANSWER SECTION

Operator: Thank you very much. At this time, we'll conduct a question-and-answer session. [Operator Instructions] Okay. Our first question comes from the line of Jeffrey Silber with BMO Capital Markets. Jeffrey, your line is open now.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Thanks so much. Dan, I've just got a quick question for you. Why the change in the format with the guidance, GAAP EPS versus adjusted diluted EPS?

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

A

We did get an SEC comment letter this last quarter. It actually, fortunately for us, but not surprisingly, I guess, was there was only one comment. And that comment was that they did not like the format that we were previously providing. They wanted us to provide GAAP in – even in the guidance section. And so, they're fine with the reconciliation process that we use, but I thought doing a reconciliation within the guidance section was going to – given the range that we provide in revenue and margin would just make it fairly messy. So instead, what we agreed with the SEC is we would provide GAAP numbers with the components necessary for you to reconcile it to as adjusted.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. I appreciate that. That's the only thing they found. That's actually pretty good. Let's move on to Operations. I know you talked about enrollment advisor hiring still below plan. Is it just the tight labor market? Is there anything else going on in the tight labor market? Are you finding it easing a little bit?

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

A

A little bit. Yes. And that is the only reason is the tight labor market. And I think in the next four, five months, we'll get back to close to where we should be. But we're not in an unbelievable rush to hire people who are really not qualified. Things are going so well right now and the morale is so high. We just went through those two years where our outside people were essentially inside not able to do much. And so our lead acquisition amounts were spread over almost double the number.

And right now, our lead purchases are applying to just those inside people. And so, they're doing extremely well. And our outside people now have been back out for a year. And we're just finding solutions for school districts, for example. I mean, we're just doing contracts for paraprofessionals within school districts so that they can become licensed teachers. School districts are extremely happy. We're doing similar things with nursing. On military bases, we are assembling talent that can do masters and baccalaureate programs in cybersecurity because they can't get people with outside salaries.

And so, the combination of those things, in addition to really, really importantly, we compete mainly against institutions that have a handful of programs. And it's the rapid expansion of programs that are current in terms of content that allows them to access jobs and careers that are developing and growing, all those things have just combined to we're really back on track now. Our ground campuses is – right now, at this time last year, we had about 14,000 applications. This year we have 17,000 applications for our ground campuses. So that's grown tremendously well.

We had tremendous success in August and September and that's continuing in October with our online campus, and that allows us to spend a little bit more time to get our hybrid campus exactly where we need it. But – so we'll eventually be where we need to be from a head count standpoint. But we're not going to hire a bunch of people that are not really qualified to do this work because things are going so well.

I want to say in addition that one of the things that people most worry about is faculty, and we are having very few issues that way. We have less than a 5% turnover rate with our faculty, both full and part time. We have a little bit, I mean, on our campus with engineering and a little bit in some of the hard sciences, we have a little bit of an issue. But other than that, things are just going really well.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay, great. I'll jump back in the queue. Thanks so much.

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

A

Thank you.

Operator: Okay. [Operator Instructions] Our – one moment. Our next call comes from Jeffrey Meuler with Baird. Jeffrey, your line is open.

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

Q

Yeah. Thank you. So I get the optimism on increasing enrollment advisor head count over the next four to five months. And it's – I mean, trends are going great right now. So just curious as to like how close to a pressing issue is it just based upon current enrollment advisor capacity and productivity? How much runway is there to continue to deliver strong growth versus at what point does like – at what point in the future would it become much more dependent upon needing to have the head count [indiscernible] (00:36:15)?

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

A

I think, we – things look very good going into the first half of next year. Obviously, total enrollment trails behind new enrollments, but the new enrollment growth has been so significant that we expect in the first half we'll be back to positive total enrollment growth. And then by that time, we need to make sure we're closer to full capacity from a hiring standpoint. And that just – that includes all areas, all counseling areas, faculty, et cetera. So you're looking at eight months or so that we have to make sure we're hiring not just the right number of people, but make sure we're hiring the right people. And so, we've got plenty of runway there, we think.

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

Q

Got it. So – and then Brain, I want to make sure I'm understanding what's going on in terms of addressing the prereq challenges for hybrids. So are there two separate pathways that you're standing up or solving for? One is, what you talked about on the call where you have 400-and-some students that are coming out of high school and going through the GCU, I guess, apprenticeship feeder type program for the first 60 and then they could potentially end up at a hybrid campus of GCU or one of your other partners. And then, in addition to that program, you're also working on addressing the prereq challenges for the career changes that have an existing bachelor's degree that could also feed into the various hybrid locations. Am I correct? There's two different things going on and can you say anything further, if so, on the second piece of that?

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

A

No, I think you're real close there. One of the things we're learning is that the demand to get in the nursing profession and the frustration of really qualified students not being given an opportunity has led to students being open to be mobile. And so, yeah, first of all, we bring students from all over the country into our pre-nursing program here on our campus. And those students go through two years and attempt to qualify to be in our nursing program on campus. If they can't get in there, there's such an over-producing of high qualified students that we put an overflow of them into our GCU ABSN programs.

What we're also finding is that there are a lot of really good high school students who are willing to stay home and earn their first 60 credit hours while at home, saving money on transportation, room, board, et cetera. And they have lots of opportunities given that eventually we'll have 80 locations to come out of those first two years with the necessary science courses and other gen ed courses, so they can apply to one of our 80 sites. But then we've got the 26 partners and there's not a lot of good options for people that have earned degrees in other areas who want a re-career into nursing. Most of the options are community college options.

And while the community colleges do a good job in some areas, if you tell a student, go take a look at what they offer in the first semester and then think about what they offer in the second. It can be a two- or three-year process, which is, most people are way too impatient for that.

And so, what we've created is online prereq courses that you take one at a time for the most part, some take two at a time, but they're eight-week courses and they cover all those science areas; biology, chemistry, anatomy, physiology, et cetera. And we have frequent starts basically every two weeks. And so, if you're a person out there who needs eight courses to get into a program rather than waiting for semesters to enter, you can start almost immediately, and you can finish those eight-week courses and then be prepared relatively soon to be in one of our programs.

And we have just such a great deal of experience in building that course work, hiring faculty, providing support services. We have a greater than 80% success rate in terms of students getting to be or better and qualifying to then eventually be in a nursing program.

And so it's that that very efficient process to take a highly qualified and ambitious student and put them in a structure where they can do that science coursework in very efficient time periods that we think is the big – one of the big holes in this industry. Eventually, we're going to have 24,000 ABSN slots with 80 locations, an average of 300 students. And so, to build up that cadre of people who are going through the prereq thought process to then be able to determine exactly what it is they're going to be completed, where the openings are going to be and help them plan to go into one of those openings, is the coordinated effort that is necessary to scale this thing.

Right now, if you just look at the landscape, it's daunting and confusing to figure out how to navigate it. We want to simplify it. So it's very simple. So they're highly qualified students that can do the work and get in a program and get on with it as soon as possible.

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

Q

Got it.

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

A

And Jeff, one thing to clarify on the 421 students that's a mixture of those two groups that Brian talked about. They're not all in – those are not all directly out of high school.

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

Q

Got it. Thanks for the clarification. And then just last, are you seeing differences in the employer behavior and employer conversation? I hear you, you have [Technical Difficulty] (00:42:07-00:42:23) on the electrician apprenticeship program that you're standing out. It sounds like the channel's generally doing better which makes sense coming out of COVID and in a tight labor market. But is there – are employers asking for more tailoring of programs, are employers doing more in terms of financial contribution to the education, just anyway that the conversation or behavior is changing?

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

A

It's both, but it's more the first than the second. I think the second is going to trail, but the first is really strong. I mean, traditionally, in higher ed, people build a campus, create programs and you had to come and do it their way, or there was no other way to do it. And where it's going in higher ed is, you better – IBM has their own university now. You better be able to, in our opinion, understand what the changing needs of the workforce in the economy are and be able to go to school districts, hospitals, businesses, technology firms and, number one, understand what their human resource needs are going to be over the next 5 to 10 years and then to be able to respond to it in a way that they can grow their own talent.

Talent is just at such a premium now. I mean, the – Arizona is especially feeling it because this place is going to explode the next 10 years with all the companies that are moving from California, Illinois and New York. And so, for us to be able to – we have a giant Taiwanese chip factory being built here right now. And then, we talk to them once a week and they want every electrical engineer we can produce. But they – for every electrical engineer they hire, they need 100 electricians.

School districts are especially excited when we can come in and take their paraprofessionals and move them from part-time people to full-time licensed teachers because there's such a serious teacher shortage. Doing the same thing in nursing, I think I mentioned military bases, they can't compete for cybersecurity specialists. And so, we've got over 400 people out there now that are offering tailored solutions to meet the human resource needs they're going to have. And they're opening their doors to us in a way that's kind of unprecedented because of the labor shortage that exists.

And so, it's just a really, really high quality way, in my opinion, for a university to operate, because what we're doing is taking people and asking them to invest time and money into an academic program but the guarantees of employment are very significant. They know exactly where they're going when they graduate. And so, that's been a big part of the rejuvenation of this area for us.

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

Q

Yeah. It's also a great validation of your being part of the solution. That's it for me. Thanks. Congrats.

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

Thanks. We have 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: Okay. Thank you for your participation. This concludes the program and you may now disconnect.