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Grand Canyon Education, Inc. (LOPE)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Q3 2026 Grand Canyon Education Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Sarah Collins, General Counsel. Please go ahead.

Sarah Slocum Collins
General Counsel, 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.

With that, I'll turn the call over to Brian.

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

Good afternoon and thank you for joining Grand Canyon Education's third quarter 2026 conference call. Total new enrollments for all three platforms were flat for the quarter while total enrollments were up 5.2%. Total revenue was up 2.4%. As a reminder, the difference between the total enrollment growth rate and the revenue growth rate is largely a result of $7.5 million of service revenue moving from the third quarter to the fourth quarter due to the late fall semester start date. Importantly, total online enrollments were up 7.1%. The quarter did not meet our expectations from a new enrollment perspective due mainly to the ground campus new enrollment miss, and that will impact our fourth quarter, which we will discuss later. However, we are still in a strong position, and I am very

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confident about our long-term goals of 7% enrollment and revenue growth with slight margin expansion, partly because of four strategies that will reignite growth on the ground campus, which I will explain later in the call.

Now I'd like to provide details on each of our three platforms. Platform one, the GCU online campus. New enrollments were flat against very tough comps, while total enrollments were up 7.1%. Total enrollment was up because of very high retention rates. Retention rates are up because of the high quality of the student body across all three platforms. Over 70% of the students studying online are in licensure programs. Students pursuing degrees in education, counseling, nursing, social work, accounting, cyber, et cetera, are very clear about their career paths and as a result perform well academically and have high retention rates. An increasing percentage of these students are recruited by outside counselors working directly with school districts, hospitals, counseling centers, businesses, military bases, et cetera. This has helped us maintain growth while making adjustments in the changing advertising and lead generation environment.

During the months of September, October, and November, we continue to increase our advertising spend to generate leads and are seeing strong interest in the professional careers we are targeting. The increased spend is offset by a reduced enrollment counselor spend. We expect new online enrollments to return to a mid-single-digit growth rate in the fourth quarter. And given current retention rates, that will produce a 6% to 7% total enrollment growth rate in the fourth quarter.

Platform two, GCU's traditional ground campus. Fall new enrollments were flat compared to prior year, which caused total enrollment to be 3% below our expectations. The fall enrollment results were disappointing from a growth perspective, but very encouraging from a quality perspective. Average incoming GPAs were at 3.6 for the incoming class and 4.1 weighted at the fast-growing Honors College. The energy around this college and the desire of Arizona companies to offer internships and eventually full-time employment to its graduates is at an all-time high.

We have four strategies we are implementing to grow the ground campus over 10% for the fall of 2027. All four strategies will produce growth over the next five years. Number one, Grand Canyon University is now on the Common App and has been since August. Over 1.5 million high school seniors in the country who apply to college use the Common App, so GCU has always been at a significant disadvantage not being on it. In September and October, applications from the Common App alone are over 5,600 and have boosted total applications for the fall of 2027 in the low double digits over prior year. GCU expects to be up in new enrollments by over 800 for fall 2027 from the Common App.

Number two, GCU expects the new college of Construction and Industrial Technologies to add a minimum of 1,500 new students to the ground campus in 2027. Careers in construction, manufacturing, and industrial technologies are exploding throughout the country. GCU has 3 bachelor's programs and 12 certificate programs and will be adding students in significant numbers beginning in January. These are all students that they wouldn't have had in prior years.

Number three, GCU just opened a state-of-the-art 55,000-square-foot facility to house one of the fastest-growing honors colleges in the country. The fastest-growing area of applications coming from the Common App is for the Honors College. GCU started this fall with about 3,400 students in the college, but expects to add a net new 400 students for the fall of 2027. These students come from all over the country, have weighted incoming GPAs of 4.1, and are helping to build the growing academic brand strength of the university.

Number four, GCU is opening the Grand Canyon University law school in the fall of 2027. The curriculum is written, the dean has been hired, and the construction of the space is moving rapidly. The university's new

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College of Law has received unanimous approval from the Arizona Supreme Court. This marks a historic milestone in Arizona legal education and establishes a pathway for GCU graduates to pursue licensure as attorneys in the state. The university is still pursuing ABA accreditation, which is not granted until after the first cohort of students has graduated, so the Arizona Supreme Court approval is important to the first class of students. GCU expects to add a minimum of 100 additional pre-law students, 100 law students, and 100 master's degree students in legal studies for the fall of 2027. These graduate students, from a revenue perspective will be worth three times what an online student is worth to Grand Canyon Education.

To sum up, GCU expects the ground campus to be reignited by adding 800 additional new students because of the Common App, 1,500 additional new students in the College of Construction and Industrial Technologies, 400 in the Honors College, and 300 in the new law school that would get us to 10% growth on the ground campus for fall 2027. But all the strategies will provide growth for at least the next five years.

Platform three, the hybrid campuses. Grand Canyon Education's hybrid campuses had an increase in enrollment year over year of 14.1% in the third quarter, excluding the closed sites and those that are in teach out, which exceeded our expectations. We have turned the corner with this platform and the future is bright. We currently have 48 locations that are slightly above 60% in total capacity. The goal is to have 80 locations with about 300 nursing students per location and an additional 300 students in other healthcare related programs.

GCE opened two new sites in the nine months ended September 30, 2026, and closed one site. We plan to open four new sites in 2027 and they will be in Reno, Nevada; Jacksonville, Florida; New Orleans, Louisiana and Lake Havasu, Arizona. Additional program offerings are being added, including a graduate nursing program with specializations at Northeastern University, which started this past fall. A hybrid occupational therapy bridge to master's program to the already successful St. Catherine's occupational therapy assistant hybrid program beginning in the fall of 2026, an online science degree with Utica University and GCU launched a bachelor of science in occupational therapy assistant program and a special language pathology program at its West Valley location. GCU is also adding a bachelor's in medical laboratory sciences program in the fall 2026. We currently have almost 8,000 students attending our hybrid campuses and the revenue per student is more than three times that of an online student.

To summarize this section, we expect GCU's online campus to grow in 2027 between 5% and 6% with traditional ground campus to grow over 10%. And the hybrid campuses to grow in the low double digits, bringing total enrollment growth to over 7%.

There are a couple of items I would like to mention regarding the third quarter. Service revenue was $267.3 million for the third quarter of 2026, an increase of $6.2 million or 2.4% as compared to $261.1 million for the third quarter of 2025. The increase year-over-year in service revenue was primarily due to an increase in university partner enrollments of 5.2%, including an increase in GCU online enrollments of 7.1% and university partner enrollments at the off-campus classroom and laboratory sites, excluding sites in teach out or closed at 14.1%. This was partially offset by six less days of ground for additional revenue at GCU of $7.5 million in the third quarter of 2026 as a result of the shift of six days of revenue from the third quarter to the fourth quarter due to the later fall semester start date.

In addition, there was a slight decline year-over-year in revenue per student for online students due to the continued mix shift to students that have a slightly lower net tuition rate, partially offset by service revenue per student for ABSN students at off-campus classroom and laboratory sites which generate significantly higher revenue per student.

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Operating income and operating margin for the three months ended, September 30, 2026, was $51.5 million and 19.3% respectively as compared to $18 million and 6.9% respectively for the same period in 2025. Operating income and operating margin excluding amortization, non-recurring costs and fixed asset disposals was at $54.7 million and 20.5% respectively for the three months ended September 30, 2026. Net income was $43 million for the third quarter of 2026. GAAP diluted income per share for the three months ended in September 30, 2026, is $1.67.

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, 2026 and 2025. We believe the non-GAAP financial information allows investors to develop a more meaningful understanding of the company's performance over time as adjusted non-GAAP diluted income per share for the three months ended September 30, 2026 and 2025 to $1.77 and $1.78 respectively, which is $0.01 above consensus estimates.

Last, I would like to provide color on the guidance we have provided in our 8-K filed today. As a reminder, the guidance that we have provided in the outlook section of our 8-K filed today is GAAP net income and diluted income per share with the components to adjust the GAAP amounts to non-GAAP as adjusted net income and non-GAAP as adjusted diluted income per share. We have updated full 2026 guidance to include the third quarter actual revenue in earnings metrics. We have narrowed the range in the fourth quarter to reflect current trends.

The third quarter 2026 GCU online new start growth was lower than our expectations but we expect new online enrollments to return to mid-single digit growth in the fourth quarter of 2026. Total online enrollment growth remains resilient due to continued retention improvements despite pressure from increasing graduations and a continued decline in re-entries. We continue to anticipate online revenue per student will be slightly down year-over-year due to the mix shift to programs that have slightly lower net tuition rates.

The revenue range has been lowered to reflect the actual GCU fall enrollments and the online flat new enrollments in the third quarter because of the tough comps. Online new enrollments will accelerate in the fourth quarter and total company enrollments will start to recover. A complete return to seven-plus percent enrollment increases will take place when the ground is reignited to a 10% increase in the fall of 2027.

On the expense side, we have lowered the projected operating margin due to the lower ground enrollment expectations. We continue to make investments to support our university partner's growth goals and anticipate margins to be flat in 2026. As has been previously discussed, the online programs primarily that lead to licensure in which GCU is growing at an accelerated rate either cost us more to service than additional online programs or at lower net tuition rates which puts some pressure on margins.

As it relates to the hybrid pillar, we will incur additional costs for the new hybrid locations that will open in early 2027 but we are experiencing increased site level profitability due to increased enrollments. We are estimating that interest income will decline year-over-year in 2026 due to the decline in cash balances due to more aggressive stock buybacks. Our guidance does not assume any drawing on the line of credit in quarter four.

As a reminder, effective July 1, 2026, we entered into an amended and restated Master Services Agreement with GCU which restructures the services fee such that going forward, service fees are calculated at 60% of tuition and academic related fees only. Ancillary fees and other revenue are for the sole benefit of GCU and a reimbursement payment that the company had been making to GCU in respect of certain academic related cost is eliminated. And in lieu of the prior non-renewal fee that was due if GCU did not renew the MSA at the end of the term. The company will continue to provide services to and receive service fees from GCU for an 18-month period following

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termination. As previously disclosed, the company estimates that under the amended MSA, its operating income will decline by an immaterial amount due to the elimination of the academic reimbursement payment.

In addition, we entered into a five-year $100 million revolving credit facility agreement. The company intends to use borrowings under the revolving credit facility, primarily to fund repurchases of its common stock under its board approved stock repurchase program, as well as other general corporate purposes. Refer to our 8-K dated October 1, 2026, for additional details about the credit agreement.

In the third quarter of 2026, we continue to aggressively buy back our stock as we believe it remained undervalued. We repurchased 504,708 shares of our common stock at approximately $75.1 million and another 225,770 shares were repurchased September 30, 2026, bringing the total repurchase year-to-date 1,926,375 shares for $306.4 million. This is a significant portion of the company's 2026 projected cash flow from operations and is greater than historical repurchases in each of the past three years.

We have $393 million remaining available as of today under our shares repurchase authorization, which includes the increased authorization by the board in October 2026 of $355 million. The company will evaluate if we believe our stock remains undervalued and determine the best use of our liquidity and cash flow.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question for today comes from the line of Jasper Bibb from Truist. Please go ahead.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Hey. Good afternoon, guys. Just on the new enrollment online in the third quarter, I know you said it ended up being flat and I think you're kind of thinking more mid to high single digit last quarter. Can you just frame kind of what the gap ended up being there and then why you're confident in getting back to mid-single digit start growth in 4Q and 2027?

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

A

Yeah. It was a little bit under what we thought but the lead generation is very strong. We started spending more in June, July and August and those leads are now starting to convert. And so, we were a little bit behind what we thought in terms of converting those leads but it looks very strong for October, November and December. And so, we're predicting, based upon where we are right now mid-single digit new online growth in the fourth quarter and that should get us get back to 6% to 7% total online growth for the fourth quarter. And so, little bit late but in terms of the overall quality and quantity of the leads and the conversion rates, it looks very good. It's not really off of what we originally projected. It's just a little bit later.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Okay. No, that makes sense. I know GCU puts out some of their own numbers in August. It just kind of seemed like the online enrollment you could back into from those was maybe a little bit stronger than things ended up

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being. I guess I'm wondering if through the quarter, you had a little bit of a better July and August and then September was a little bit weaker. I guess I'm just kind of trying to understand if there was a difference in the months as you kind of work through the quarter.

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

A

Yeah. It didn't come out exactly on a month-by-month basis as we originally predicted but the overall number is going to be about the same as what we predicted. And so, it's just a little bit later. I don't think – the concern should not be about online enrollments. We are doing – our outside counselors are really keeping things strong. We're making adjustments. We've kind of flattened out from a lead generation, from a web leads perspective. Everybody has been talking about how that's dropping because people aren't going to your website to hear what you say about your yourself. But that's flattened out now. That's bottomed out and it's pretty steady. We know what to expect from a month-to-month basis.

We're working really hard with Meta and with other AI companies and we're starting to – we're not going to talk a lot about exactly what we're doing because I think it's pretty creative. And we are starting to understand what the future is going to be but the interest especially in the programs we're advertising for is very strong. And so, where we're going to end up the year is pretty close to what we originally thought. It's just coming a little bit later but we do expect a strong fourth quarter.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Okay. No, that makes sense. Maybe last one for me. The marketing expense growth outpaced revenue a little bit this quarter. Was that a timing thing? Can you maybe talk about what you're seeing in cost of acquisition and any color on how that's trending? Thanks.

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

A

Yeah. The cost per acquisition is holding real steady. We are putting more into advertising, understanding the new world is taking time, but we feel like we're out in front of it as compared to most other people that are trying to make this adjustment and we're starting to understand what the future is going to be. So, we're excited and we feel good about that. And we are doing more with less from an enrollment counselor standpoint.

And so, we're not hiring as rapidly as we would have in the past. And so, we're saving money on the enrollment counselor salary side. We're spending more on the advertising side. The lead generation is strong. And we think that we understand the future and we're really excited about 2027. If we can do what we believe we can do from an online standpoint and have for 18 years and we continue to do what we're doing from a hybrid perspective, which that's on a very strong path, it's the ground campus.

And the ground campus is interesting because, yes, it's true. We've been basically flat for three years. But in this environment, if you're flat, you're good especially if you don't go down market to get students and we have not done that. The average incoming GPAs of our ground campus students are actually continuing to go up. Our Honors College gets stronger. And so, those four strategies that we talked about are strategies that are all additive.

Not being on a Common App, we didn't understand how big a limitation that was I don't think. Just in September and October alone, we've got over 5,600 applications that have come directly from the Common App. We have

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had no contact with over 4,000 of that 5,600. And so, those are people that went out there to the Common App to apply to colleges and put in their qualifications. They took a look at Grand Canyon University, our tuition rate, got interested and applied. And so that is a significant amount of activity. The greater amount of activity is going to happen in January and February.

And so, that combined with the construction school, which is all additive and then the numbers I gave for the law school were very conservative. They were very conservative. We were very excited about that for a lot of reasons. But the Arizona Supreme Court, that meeting was particularly surprising because they have been so impressed with what GCU has done in this marketplace for the last 18 years, the quality of what we've produced, that they took an unprecedented move by approving us and allowing our grads who passed the bar examination in Arizona to immediately begin practicing without completing the ABA approval process, which we will.

That was a stamp of approval that really was encouraging and exciting for us. I think we'll actually start more than 100 JD students in the fall and we've got a pretty strict line from an admissions requirement perspective. We're not going to go under – the data around law schools are really tested. You go below a certain pre-law examination score and the chances for success are very low. And first-time pass rates on that bar examination is something we're really gearing towards having 100% rate at that. And so, I think we'll start more JD students than 100.

The master's degrees and legal studies are really interesting. There are 30 credit programs. They're around $30,000 a program. They're about a year. But so many of our students are graduating in three years and a lot of students, for example, in our fast growing real estate program at the baccalaureate level in our business school, we have 30 credit hour master's in legal studies real estate law program that a lot of students are interested in to round out their real estate education. And we think we can add a great deal more than the 100 students that we're projecting in that area.

And then the pre-law program, that's probably a conservative estimate, too, because we're going to be offered a three plus two program and giving students a chance to complete their law degree in five years starting from scratch. And so, that thing could be bigger than we're projecting.

And then the Honors College. The building is spectacular and it's going to be a big draw. And so, if we can get 10% growth on our ground campus and do what we're saying in the other two, it's going to very significantly change our financial outlook going forward.

And all four of those strategies are not strategies that are onetime wonders. Those are all the – law school could grow to between 2,000 and 3,000 students. The Honors College is going to grow to 7,000-plus students. The construction school I think will grow to possibly 10,000 students over six or seven years. And so, those are the numbers we're quoting there for the ground campus are all beginning numbers with significant growth potential that would really change the financial outlook of GCE significantly. So, hope that helps in terms of 2027. Look, we'll be giving guidance obviously early in the year, official guidance, but I want to give a little bit of a look in terms of that 7% number.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Yeah. No, I appreciate all the detail there. Thanks for taking the question, Brian.

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

A

Thank you.

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Brian E. Mueller

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

Looks like 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 Jacob Lambert. Thank you very much for your attendance.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.

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