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Grand Canyon Education, Inc. (LOPE)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Grand Canyon Education's Fourth Quarter 2023 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, Dan Bachus, CFO. Please go ahead.

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

Joining me on today's call is our Chairman and CEO, Brian Mueller. Please note that many of our comments today will contain forward-looking statements that involve 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'll turn the call over to Brian.

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

Good afternoon and thank you for joining Grand Canyon Education's fourth quarter fiscal year 2023 conference call. GCE had another strong quarter exceeding enrollment expectations by producing online new starts that were in the mid-teens over prior year and also continuing to produce greater than expected retention numbers, exceeding revenue guidance estimates at midpoint by $3.3 million, producing a $0.05 beat in adjusted diluted earnings per share to consensus while continuing to invest heavily in initiatives for our university partners. Judging by these results and the current organic lead flow, there has never been greater interest in what is happening at Grand Canyon Education and its 25 partner institutions. There is a vast amount of untapped potential in the American labor force today. There are still universities that chase after U.S. News & World Report Rankings.

Unfortunately, the criteria for attaining those rankings have nothing to do with tapping into the unmet potential. For example, the fact that there are nursing and teacher shortages is a direct result of misplaced university priorities. Our success is the result of trying to understand the life situations of students and the nature of what it is they need to learn. The combination of relevant programs and creative delivery models is what is driving the interest in what we are doing. GCU's traditional ground campus is designed around the needs of 18-year-old high school graduates who are able to spend three or four years on a college campus preparing for life and work as adults. Their learning is primarily in physical brick-and-mortar classrooms, in other on-campus venues and in internships in organizations throughout the Greater Phoenix area. Second, GCU's online campus is designed for working adult students who enter academic programs whose content can be learned totally in an online environment. The third platform is for students who can't spend three or four years in a college campus, but what they are learning can't be done totally online. The 80 hybrid locations we are building is for students entering programs where some of the content can be learned online while a significant part must be learned in a brick-and-mortar laboratory setting. Currently, it is healthcare programs, specifically nursing, that are offered in those settings. The fourth platform is for students who want to access the rapidly expanding trade professions. These are shorter programs in a physical brick-and-mortar setting that combine real world work experience with classroom learning. These students, after gaining employment, can finish their bachelor's degree online. We are developing a fifth platform for students who are 18-year-old high school graduates who want a three- or four-year college experience but want to do it at a distance.

I spend some time on this 40,000 foot view of what we are doing with our partners because there are people writing about why they think we are experiencing success in a troubled industry. The reality is higher education needs to move way past the simple dichotomy of either learning on a campus or doing it online. There are vast shortages in areas like teaching and nursing because we lack creative models of delivery that take into account the student's life situation and the nature of what it is they need to learn rather than pursuing outdated and irrelevant U.S. News & World Report Rankings. But to teach these programs at scale and in certain cases at a distance takes significant investment in people, technology and process, investments we have made and will continue to make. With that, I would like to review the results of the four delivery platforms at Grand Canyon Education.

First, the online campus at Grand Canyon University. New starts were up in the mid-teens over the fourth quarter of the prior year, and total enrollment growth significantly exceeded our expectations as it is up 10% over the prior year. There are many reasons for this, but I want to highlight four. One, we have stayed hyper-focused on opportunities that exist in today's labor market and since the beginning of the pandemic, GCU has rolled out 135 new programs, emphases and certificates across the 10 colleges. These programs are tied directly to labor market opportunities for students and accounted for 6.7% of the new students who started in the fourth quarter. One of the responses of universities to declining enrollments during the pandemic was to reduce the number of programs they offered.

Number two, we continue to work with employers directly to address their workforce shortages. This effort is focused on the industries of education, healthcare, technology, public safety and the military. In the fourth quarter, new starts from this work increased 18.6%.

Number three, the retention of students in the fourth quarter went up 120 basis points, which we believe continues to improve because of the relevancy of the programs to students who are entering and their direct tie to the student's career aspirations.

Four, GCU has resisted responding to the slower growth during the pandemic by raising tuition significantly, which many institutions have done. Online net tuition increases since 2018 have averaged approximately 1% per year.

We anticipate new enrollments to be up year-over-year in 2024 in the mid to high single digits. This deceleration from new enrollment growth in 2023 is not the result of the decrease in interest in GCU online as we anticipate new enrollments to be up significantly on an absolute basis. It is primarily due to reacceleration of online starts that took place in 2023.

Second, the GCU ground campus for traditional students, we currently believe, based on early indications, that for fall of 2024 that GCU's traditional on-campus enrollment will return to its normal growth trajectory based on Discover GCU visits being up 43% year-to-date, while the number of traditional-age students desiring to attend online continues to significantly exceed prior years as well. Because of GCU's significant advantages, including the very low price point, very low average debt levels, percent of students completing in less than four years and the relevancy of GCU academic programs, we anticipate that GCU will benefit from both trends. We will continue to focus on meeting GCU's growth goals for traditional students attending on GCU's campus with GCU's goal still being 50,000 and also focus on traditional-age students across the country who want to do their academic work from home. We are concerned about the Department of Education's FAFSA delays, but as is true with every other university, we are working around them the best we can.

Third, Grand Canyon Education's hybrid campus had a decline in enrollment year-over-year of 3.3% in the fourth quarter. However, we believe the hybrid campus has turned the corner. New fall enrollments were up in the high single digits year-over-year and we expect the new enrollment growth rate in both the spring of 2024 and summer of 2024 to be up over 20% year-over-year. There are two main reasons for this. One, almost all of our active ABSN partners have responded to the younger students interested in ABSN programs by admitting Advanced Standing Students or are in the process of making that change. Students with partially completed degrees haven't accumulated a great deal of debt and are very interested in nursing careers, but didn't have an efficient way to earn the prerequisite science coursework. GCU created the science courses in some other Gen Ed courses so they could be delivered online in eight weeks. Students can access these courses from anywhere in the world. There are start opportunities almost every week. These courses have been made very affordable, are taught by experienced faculty, class sizes are low and there is a tremendous amount of academic support, including in artificial intelligence project that went live in October, which provides students 24/7 access to tutoring.

Since implementing these courses, we have already enrolled approximately 6,816 students. We have a waterfall report that allows us to know how students are progressing through their prerequisite courses and when they will be eligible to start at one of our ABSN sites. The success rate of students who successfully enter the ABSN programs is 90%, and the first time pass rate on the NCLEX exam is approximately 90% as well.

We now have an extremely efficient way to get students academically eligible and prepared to enter the program. We saw positive results in the fall semester and we believe it will get better from there. There has never been greater interest among potential students for entering the healthcare professions and specifically nursing. Because of the low unemployment rate, the interest has shifted to these younger students who haven't accumulated a great deal of debt, completing a bachelor's degree in another area and are underemployed. Nearly all our partners have responded positively to the change needed to serve the Advanced Standing Students.

Two institutional partners have not responded and we are discontinuing our partnership with them, resulting in two sites closing. In addition, we, along with another partner institutions, have agreed to close one of their sites due to its small market size. We will be teaching out the students at two of these sites, and thus there will continue to be revenue and expense for the next year or so, but the losses will be less as a result of the closings and the lost revenue thereafter is small.

Related to the third site, our partner recently notified us that they would like to terminate the agreement due to the enrollments underperforming and they will begin teaching out the students on their campus beginning with the summer term. This partner had not agreed to make the change to admit students without completed bachelor's degrees, which is why we believe the enrollments at this site continued to underperform both the partner expectations and ours. As a result, revenue will be lower than what had been anticipated, but expense will as well, as this site was expected to shift from profitability in prior years to a loss in 2024 due to the decline in enrollments. These closings are not in any way a reflection of our excitement for this platform or – for this platform of our business. Our goal is still to have 80 locations, with approximately 25 partners with 40 of the locations being GCU locations.

Fourth, the Center for Workforce Development at Grand Canyon University. The 2022-2023 school year we started 80 students in GCU's electrician's pre-apprenticeship program in partnership with companies that are experiencing labor shortages in that area and are excited about hiring GCU's graduates. The program consists of four core credit courses and runs one semester. 74 students successfully completed the program. This upcoming school year we will start 230 students in the program and expect the same results. 119 students started this program in the fall and we expect approximately 110 in the spring of 2024. GCU also has plans to begin offering this program at one of our locations outside of Arizona in 2024.

This past fall, GCU also started 19 students in a manufacturing certificate program. GCU is running a small parts manufacturing business on-campus that is doing work with some of the major companies in Arizona. These students are going to school for 20 hours a week and then working at facility as a paid employee for 20 hours. At the end of the semester, they received a manufacturing certificate and became eligible for employment in Arizona's fast-growing manufacturing industry. GCU's growing engineering college also has students assisting with this project. Once this concept has been successfully proved out, we expect to work with GCU to scale this program and then add others.

I started out talking about the relevant programs and creative delivery models that GCE has implemented with its 25 partner institutions. In the five-plus 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 154,318 students, 42,438 in education, including 19,842 first-time teachers, at a time when teacher shortages have created a national crisis; 42,941 in nursing and healthcare professions, including 2,267 pre-licensure nurses, at a time when there's a huge shortage of nurses; 30,115 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 26,627 graduates. The College of Science, Engineering and Technology has grown by 246% and provided 4,874 graduates. The Doctoral College, Honors College and College of Theology also continue to grow. In addition, GCE has helped its other partners graduate 11,848 pre-licensure nurses and occupational therapist assistants. The numbers that I have just cited have all happened in the five-plus years since the GCU-GCE transaction and since GCE has become an education services provider.

Service revenue was $278.3 million for the fourth quarter of 2023, an increase of $19.6 million or 7.6% as compared to the $258.7 million for the fourth quarter of 2022. The increase year-over-year in service revenue was primarily due to an increase in GCU enrollments of 8% and an increase in revenue per student year-over-year. Operating income for the three months ended December 31, 2023, was $97.8 million, an increase of $7.1 million as compared to $90.7 million for the same period of 2022. The operating margin for each of the three months ended December 31, 2023, and 2022, was 35.1%. Net income increased 13.6% to $80.7 million for the fourth quarter of 2023 compared to $71 million for the same period in 2022. GAAP diluted income per share for the three months ended December 31, 2023, is $2.71. As adjusted non-GAAP diluted income per share for the three months ended December 31, 2023, is $2.77.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on our 2023 fourth quarter, talk about changes in the income statements, balance sheet and other items as well as to discuss the 2024 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, 2023, and 2022. The non-GAAP amounts exclude the tax-effected amount of the amortization of intangible assets of $2.1 million in the fourth quarters of both 2023 and 2022 and the tax-effected amount of the losses on fixed asset disposals of $0.2 million and $0.1 million for the three months ended December 31, 2023, and 2022, respectively. We believe that 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, 2023, and 2022, is $2.77 and $2.36 respectively.

Service revenue was higher than our expectations in the fourth quarter of 2023 due to higher than expected enrollments at GCU and some of our other university partners. Revenue per student continues to grow on a year-over-year basis primarily due to the service revenue impact of the growth in the GCU traditional campus enrollments between years, which has a higher revenue per student and the higher revenue per student at off-campus classroom and laboratory sites. 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're in accelerated programs. The increase in revenue per student was negatively impacted in the fourth quarter of 2023 by year-over-year differences in the timing of the GCU traditional campus fall semester, such that $1.2 million shifted from the fourth quarter of 2023 to the third quarter in 2023 as compared to last year.

Our operating margin was slightly lower than our expectations, primarily due to higher than expected investments, including higher Discover visitors and increased head count and higher technology costs. As I discussed on prior quarter's earnings calls, we have been aggressively hiring in which head count had been mostly flat since March of 2020 to meet our partners' expected future growth, which is driving increased compensation costs primarily in counseling services and support costs. We also planned for and have incurred significant increases year-over-year in travel, primarily related to Discover. We also planned and have incurred increased clinical costs at off-campus classroom and laboratory sites due to the nursing shortage. We also continue to spend more in technology services, both in head count and licensing fees as a result of new technology requests by our partners and we are incurring costs related to the new hybrid locations that have opened in the last six months or will open in 2024. And a shift of $1.2 million of revenue from the fourth quarter to the third quarter as compared to prior year negatively impacts the fourth quarter margin.

Our effective tax rate for the fourth quarter of 2023 was 19.9%, compared to 22.8% in the fourth quarter of 2022 and our guidance of 20.3%. The decrease in our effective tax rate between periods was primarily driven by other discrete tax items recorded in the respective periods. We repurchased 134,747 shares of our common stock in the fourth quarter of 2023, at a cost of approximately $16.8 million. And another 50,703 shares were repurchased since December 31, 2023. We have $258.6 million remaining available as of today under our share repurchase authorization. The board and the company intends to continue using a significant portion of its cash flows from our operations to repurchase its shares.

Turning to the balance sheet and cash flows, total unrestricted cash and short term investments as of December 31, 2023, were $244.5 million. GCE CapEx in the fourth quarter of 2023, including CapEx for new off-campus classroom and laboratory sites, was approximately $10.4 million or 3.7% of service revenues. We expect CapEx for 2024 to be between $30 million and $40 million. The slightly higher CapEx expectations is due to higher spend on internal IT projects and due to a couple of the new offsite locations incurring slightly higher than expected tenant improvement and equipment costs.

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. Consistent with the prior year, we have provided ranges for revenue, operating margin and earnings per share for each of the four quarters of 2024. We do this because our financial results are seasonal. The revenue range assumes the following, GCU ground enrollment will grow to 22,900 in the spring, 7,800 in the summer and between 25,800 and 27,100 in the fall. The ground number continues to include GCU hybrid and professional study students. Residential students are projected to grow to 16,000 in the spring and between 17,500 and 18,500 in the fall.

Timing differences in the start and end of the traditional campus semester is pushing $2.1 million from Q2 2024 to Q1 2024 in comparison to 2023; $0.2 million from Q3 2024 to Q2 2024; and $2.7 million from Q4 2024 to Q3 2024 in comparison to 2023. We anticipate that new online enrollments will be up year-over-year in the mid to high single digits in each quarter during 2024 and that total online enrollment will continue to grow in the high single digits over the prior year throughout 2024.

As Brian has discussed, the online enrollment results were outstanding in 2023. Not only did new enrollment grow at a much higher rate than we expected, and in the second half these growth rates were coming off a very difficult year-over-year comp, but retention rates significantly improved over the prior year. These factors will impact the total enrollment growth rate in 2024. The new enrollment growth is a deceleration from 2023 in growth rate, but not in the overall new students being added and the total online growth rates are expected to remain over our long term objectives of mid-single-digit growth throughout the year. There could be some upside to these projections given the strong lead trends, but given the very significant growth in 2023 and thus the difficult comps, we believe these estimates are appropriate. We also anticipate seeing a decline in the growth rate of reentries, students returning to school after break, due to 2023 retention rates and a significant year-over-year increase in graduates, both of which will put pressure on the total enrollment growth rate.

As Brian discussed earlier, the new student growth rate in the hybrid pillar is predicted to grow on a year-over-year basis greater than 20% in each of the next two start periods during 2024 and the total hybrid enrollment will return to growth in the first quarter, which is much sooner than we had previously predicted. The revenue growth rate for the hybrid pillar as a result of the enrollment growth will be partially offset by changes made to the contracts for the university partners that are no longer being reimbursed for faculty costs and the site closings discussed earlier. We estimate that this will lower revenue approximately $6.1 million during 2024.

On the expense side, as you recall, we made significant investments in the past few years, primarily in head count and travel expenses to meet the growth goals of our partners. Our head count growth will slow in 2024, which will allow us to return to margin expansion, but there are still expense categories that we anticipate will see year-over-year increases greater than revenue growth.

As Brian mentioned earlier, beginning this past fall and continuing in the spring, we have seen a significant increase in the demand for GCU's traditional Campus Discover Events and thus we anticipate a continued increase year-over-year in travel expenses. This is a significant expense we believe we need to incur to meet GCU's desired traditional campus growth rate. We also anticipate increases in technology and academic services costs as we spend more in technology services, both in head count and licenses fees as a result of new technology requests by our partners and will incur costs for the new hybrid locations that have opened in the last six months or will open in 2024-2025. We do anticipate that the hybrid pillar will continue to lose money in 2024 given that a number of mature sites remain significantly below pre-COVID student count. The newer sites are generally back to historical margin profiles as they're back to growing at rates more similar to what we experienced pre-COVID, but to get back to profitability, the mature sites need to get back to pre-COVID enrollment levels.

Those that are now admitting Advanced Standing Students are generally back to growth. Those that have not generally continued to see enrollment challenges. We are also continuing to observe that our cost to service students in the licensure online programs at GCU is seeing significant growth in, is higher than other programs. We anticipate that this will continue to put pressure on long term margins as these programs continue to grow.

Last, we anticipate an increase in legal fees in 2024 over prior years, as we have a couple of lawsuits filed in prior years that are expected to go into the discovery phase and/or into trial during 2024. Litigation fees and regulatory reserves are included as a component of our non-GAAP measure adjusted EBITDA.

With all that said, we anticipate returning to long term margin growth. In estimating interest income for 2024, we assume similar cash balances to 2023 and a similar interest rate environment in the first half of 2024, so we projected similar interest income in the first half, but are conservatively projecting a decline in interest rates in the second half of 2024 and thus slightly lower interest income. We believe the effective tax rate for the four quarters of 2024 will be 23.4%, 24.9%, 24.9% and 22.8%. The effective tax rate will be higher in 2024 than 2023 because of the impact of state income taxes as revenues continue to grow at the offsite locations outside of Arizona, driving our tax rate increase and the first quarter effective tax rate is much higher than in 2023, as in 2023, we received a large one-time Arizona state income tax refund. These estimates do not assume a contribution in lieu of state income taxes. So if one is made, that will increase G&A expense in the third quarter and decrease the effective tax rate in the second half of the year.

Our weighted average shares guidance assumes that we purchase most of the remaining amount authorized by our board over the rest of the year, although given the rise in the stock price, we anticipate purchasing less stock in 2024 than in 2023. The board continues to authorize the repurchase of shares as it believes the stock remains undervalued based on the metrics that it uses to evaluate, including 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 11.8, which is less than the recent S&P average of 17. The average free cash flow yield for the S&P 500 is 2.8%, whereas the company's free cash flow yield is approximately 5.7%.

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] And our first question comes from Jeff Silber with BMO Capital Markets. Your line's now open.

Ryan Griffin
Analyst, BMO Capital Markets Corp.

Q

Hey, good afternoon. This is Ryan on for Jeff. Just a question on some of the FAFSA delays. Have you seen any impact there in Orbis or GCU and just anything related to call out there?

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

A

We haven't – where we're going to see it is on the ground campus. And that's where we'll see it more so than any place else. And what we have to do is stay in touch with students who are interested and give them as much information as we can about our programs, the cost of our programs, invite them to campus through Discover GCU and we believe that eventually the site will get fixed and we will be able to get them the – they will be able to get the FAFSA information that they need to make a decision. And so our ability to stay with the students and keep them motivated is what's key here and that's going to be true for every university. One of the things that we saw in the fall was that, again, enrollments in four-year institutions were down. Enrollments – the only place the enrollments were really up was in community colleges and that was significant given the reductions in community college enrollments during the pandemic.

What that – what this is a reflection of, we believe, is that inflation is real for middle-class Americans. And the whole idea of questioning the return on investment for higher education continues in this country. And if you're questioning the return you're going to get, you're going to look for less expensive options. And so in the short run, community colleges benefit from that, but we also eventually will benefit from that we believe. The reason we're over-investing in visits to the campus this year and are running 43% ahead, is that as President of the university, I still believe that we have an incredibly strong value proposition that's still relatively unknown for the majority of Americans. And we are so excited about what we have to offer here and what's happening with our graduates of this campus that we're going to continue to over-invest in that process, even with some of the challenges from a FAFSA perspective. And so there are challenges related to that, but we believe that we are better positioned than everybody else to respond to those challenges and we're looking forward to having a real successful fall semester here.

Ryan Griffin
Analyst, BMO Capital Markets Corp.

Q

That's great. And sorry, just one more clarifying one. Can you go over the $6.1 million you called out and when is that expected to be phased out? I'm assuming that's just the two partners and the other one closing down.

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

A

Yeah, the $6.1 million is the net impact of, if you remember, we changed the contract on some of the hybrid partners where they now are paying their own faculty costs, we're no longer reimbursing them. So that has the effect of reducing revenue and reducing our expenses and net netting to basically zero. So a big portion of that $6.1 million is that. And some of that impact was obviously in last year as well. And then the rest of it is the impact of the closing of the sites. That amount's pretty minimal of the overall $6.1 million and most of that is in the second half of the year.

Ryan Griffin
Analyst, BMO Capital Markets Corp.
Q

Got it. Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from Jeff Meuler with Baird. Your line is now open.

Steven Pawlak
Analyst, Robert W. Baird & Co., Inc.
Q

Yeah, thank you. It's Steven Pawlak on for Jeff. Just on the GCU Discover strength, obviously good numbers there, but just maybe some more detail. Are you seeing that you have better reach or better conversion of students? I guess just kind of what are some of the driving forces behind some of those strong numbers?

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

The number of visitors, like we said, is strong. The number of students that eventually apply to the institution is strong. What's lagging behind a little bit is the number of students that are committing by putting a down payment down, because many of them are waiting for FAFSA information. And so there is no question that we're – that we are – again, I'll say this as President of the university, I'm so bullish on what we have here. And I think it's so – the knowledge of what we have and the value proposition is still very under known in most of the country. We are becoming more well-known. I mean, currently, 25% of our ground students are from Arizona, 20% or so from California, but we're growing like crazy in the Midwest, the Northwest and the Southeast and so our ability to hang with these students and keep them as informed as we possibly can and then execute once they receive the FAFSA information that they're waiting for, we think we'll be in a better spot to convert those students than others that we're competing against. And so obviously we've got to prove that out. But again, our goal is 50,000 students on this campus and we're going to continue to push through that goal because we're so excited about what's going on in Arizona and in the Greater Southwest from the standpoint of these students getting jobs.

We've got 25 advisory boards, we've got over 600 companies represented on those advisory boards and a lot of them are participating because they want access to our graduates. And the difference our graduates are making in the workforce is really well understood by the hospitals, the school districts, the engineering firms, the technology firms and so we are overspending to get students to campus. And we did go through the – what happened last year with more students deciding to do it from home but we really believe, and I talk to these people almost on an everyday basis that are actually doing the work, that we're one year now removed – further removed from COVID and the likeliness of students to be okay moving from home, parents being okay with them moving from home, we think that being one more year removed from it, puts us in a different place and we're excited about this investment and the return it could provide in the fall. So we know there's a little bit of a risk involved there, but we are very bullish on what goes on here and its impact on students and families and the economy.

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

Do you have any – Brian, I think he was asking, do you have any thoughts on why Discover visits are up so much? Is the university brand growing nationally?

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

[indiscernible] (00:36:32). Absolutely. The value proposition that we have here is people are responding to that given inflation and if you're doubting the return on investment for going to college, is becoming – really it's becoming more well known that you can get involved here, graduate in three years, graduate with less debt than the average state university student. Our current loan amounts are 50% of the parent loan amounts for in-state – or in-state institutions. And so if you're at all questioning the value of going into a $100,000 or $150,000 worth of debt in order to go to college, you don't have to do that going here. And so the interest – that's what's primarily driving the interest and the willingness of people to take the time to come here and visit.

Steven Pawlak
Analyst, Robert W. Baird & Co., Inc.
Q

No, it makes sense. Appreciate the color. And then, Brian, I think [indiscernible] (00:37:32) sort of traditional-age students [indiscernible] (00:37:39) hear that correctly and then B, how would that be different than your GCU online program?

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

Yeah, we – right now, the students that are 18 years old are 19 years old and want to earn a degree in business or earn a degree in education, and they want to do it from home, they really start in the same program that [indiscernible] (00:38:01) working adult students. There's not much difference in those things. What we're working on is eventually a fifth platform that would take into consideration the students are younger, they have less work experience, they bring less to the classroom in terms of that work experience and so over time, we might differentiate those two groups a little bit more than we do today. Today, we basically put them in the same program that, for example, a 32-year-old would go into if they were to return to college and want to earn a degree in one of those areas. So there's not much difference today, but the fact that we are able to do it in the way that we do it, differentiates us. If you're living in wherever state in the country and you're thinking, I want to go to college, but I'm okay staying home, I've got a network of friends, I've got a good part-time job, I'm making $20 an hour, I can do this from home at least for a year or maybe longer, there's not a lot of institutions that give you the ability to do that. And so as we look at traditional-age students, we want to grow our ground campus to 50,000 students. But for those students that are that age who want to stay home, we have an opportunity to serve them as well, whereas most institutions don't. So we'll work on both those things.

Steven Pawlak
Analyst, Robert W. Baird & Co., Inc.
Q

Thank you very much.

Operator: Thank you. One moment for our next question. Our next question comes from Alex Paris with Barrington Research. Your line is now open.

Alexander Paris
Analyst, Barrington Research Associates, Inc.

Q

Thank you – thank you for taking my question. I just had a follow-up on the hybrid campus. Lot of information [indiscernible] (00:39:51). All right. So hybrid, you had a 3.3% decline in total enrollment during the fourth quarter but fall new student was up in the high single digits. You're expecting and I'm just trying to get some clarification, new student enrollment growth in the spring and the summer are expected to be up over 20% and you expect total student enrollment to inflect positive in the first quarter [indiscernible] (00:40:19)

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

A

Correct. You got it right, Alex.

Alexander Paris
Analyst, Barrington Research Associates, Inc.

Q

All right. Thank you. And then with regard to the site closures, of your 24 partnerships, only 2 have not responded to the Advanced Standing Students proposition and that led to the closure of these 2 sites and the discontinuing of business with these 2 institutions, right?

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

A

That's correct. Yes.

Alexander Paris
Analyst, Barrington Research Associates, Inc.

Q

And then you had one other that you were closing just because it was below expectations, which then led to you discontinuing business with that, so you've gone from 24 partners to 21 partners within the hybrid pillar?

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

A

One point of clarification. The last one is a partner that had multiple locations and the decision was made this quarter to close one of their multiple locations. So we are only decreasing our partners – number of partners by two.

Alexander Paris
Analyst, Barrington Research Associates, Inc.

Q

Okay, good. Thank you for that. Now your goal is to have 80 site locations, 40 of which will be GCE locations with 25 partners. So you expect to add based on that target three net new university partners in the hybrid pillar...

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

A

Yeah,...

Alexander Paris
Analyst, Barrington Research Associates, Inc.

Q

...over time?

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

A

...that's an approximate number. There are areas of the country and states where it's easier to operate with an existing institution in that state and for GCU to get in that state and for those states, we will add an additional partner. The difference is, this time, as we add additional partners, it will be with the common understanding that the place we really need to focus is on those 19, 20 and 21-year-old students who've earned 30 college credits, they don't have a lot of debt accumulated from a previous degree program and so they're very open to doing their prerequisite work online and their – and then pay what they need to pay in order to earn the degree in nursing. And so we won't sign another partner who doesn't come with that understanding and that agreement that they will admit those students and when you – back to your 20% increase, that seems dramatic given what we've done in the last year, but remember, we've started over 6,000 students in these prereq courses. And so the students being able to access those courses anywhere in the country and largely take them without the help of financial aid or without taking loans, is another huge step in the right direction. If we can get 19, 20 and 21-year-old students to understand that they can do the necessary academic work to prepare them without debt and they haven't already accumulated debt from a previous baccalaureate program, the investment in the ABSN program makes unbelievable amount of sense given the number of – given the money they will make in their career as a nurse and the shortages and all of that. So we think we've turned the corner from the standpoint of these hybrid programs, and we're very excited about where it's going in the future.

Alexander Paris
Analyst, Barrington Research Associates, Inc.

Q

It's great. And then obviously there's a lag between new student enrollment and total student enrollment, although we expect total student enrollment to be up in the first quarter. Yet, Dan, I think you said that you expect the hybrid pillar to still lose money in 2024. What level of revenue do we need or what level of enrollment do we need for it to breakeven? And do you expect it to be breakeven or better in 2025?

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

A

We're hopeful. I mean, we're – we expect a significant decrease in the loss between 2023 and 2024 and we're hopeful it'll get back to profitability in 2025. The key, as I mentioned earlier, is to get these mature locations that were at capacity pre-COVID and have seen significant declines in their enrollments, back to or close to capacity. And so we're obviously very focused on that, working along with our university partners and the things that Brian talked about. We're on our way, but we have work to do to get those mature locations back to capacity.

Alexander Paris
Analyst, Barrington Research Associates, Inc.

Q

Great. And then last question, unrelated, FAFSA. Brian, I think you said that you're watching it most closely for the ground campus. Why is it less of a concern for the online students or the hybrid students?

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

A

I guess I shouldn't say it's of less concern, but it doesn't – the – our ability to work with online students given the delays in FAFSA is easier than it is with ground students who are first-time students entering college, coming from backgrounds where the – their parents haven't gone to college, understood college and that kind of thing. There's just a little bit of – there's a greater amount of uncertainty with the traditional ground students versus online students. And then in addition to that, remember that 50% of our online students are grad students and not eligible for Pell Grant anyway.

Alexander Paris
Analyst, Barrington Research Associates, Inc.
Q

Got you. That's helpful. And then does it also – is it also easier with online students because of the frequent starts? So if you miss a start, you don't have to wait an entire semester to enroll that student and risk losing that student in the interim?

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

That's part of it too. Yeah, that is...

Alexander Paris
Analyst, Barrington Research Associates, Inc.
Q

Yeah.

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

...part of it.

Alexander Paris
Analyst, Barrington Research Associates, Inc.
Q

Great. Well, thanks for the color, guys. Appreciate it.

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

Yeah, thank you. We've 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.

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