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Grand Canyon Education, Inc. (LOPE)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Q3 2021 Grand Canyon Education Earnings Conference Call. At this time, all participants are in a listen-only mode. And after the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Dan Bachus, Chief Financial Officer. 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, President & Chief Executive Officer, Grand Canyon Education, Inc.

Good afternoon and thank you for joining Grand Canyon Education's third quarter fiscal year 2021 conference call. I want to again – begin again by listing the major challenges facing higher education because so much of our strategy is meant to directly address those challenges. I believe those issues continue to be: one, the out-of-control rising costs of university education. From the early 1980s to the late 2010s, the price of college increased

8 times the increase in wages. Number two, the increasing student debt levels that will seriously hinder graduates as they begin their adult lives. Three, as tuition levels go up, diversity on college campuses go down. Four, bachelor's degrees should not take four to six years to complete. Five, programs and delivery models lack the creativity and flexibility necessary to address critical shortages in some very important industries. Six, there are inadequate counseling and support services, especially for first-generation students or those studying at a distance. Seven, three-fifths of college graduates would change majors if they were starting over 30% for better job opportunities. And eight, prior to the pandemic, 43% of college graduates were underemployed in their first job, two-thirds remain in jobs that don't require college degrees five years later.

In addition to these challenges that have been building up for decades, I want to read from an article that came out on October 26. Enrollment at US colleges and universities is on track to fall by another – nearly 500,000 undergraduate students this fall, continuing a historic drop that began with the start of the coronavirus pandemic, according to new data out Tuesday.

The decline of 3.2% in undergraduate enrollment this fall follows a similar drop of 3.3% in the previous year, the first fall of the pandemic, according to the research from the National Student Clearinghouse Research Center. The numbers are from a preliminary dataset representing 8.4 million undergrad and graduate students from about 50% of US colleges. The numbers that show that there are now 240,000 fewer undergrads enrolled this fall compared with the same time of last year. And if that rate of decline holds up for the rest of the colleges, that could translate into almost 0.5 million fewer undergraduate students. If these preliminary numbers hold up Shapiro says the last two years of undergrad decline totaling more than 6%, it would be the largest two-year decrease in at least half a century.

This fall, the drop in undergraduate enrollment is spread across all sectors, but numbers are worse at community colleges, public four-year colleges and private for profits. While schools that are primarily online saw gains last year during the height of the pandemic, those positives turned to negatives this fall with enrollment dropping by 5.4% for undergrad programs and 13.6% for graduate programs.

In the context of these negative trends, we believe Grand Canyon Education is doing well and is very well-positioned going forward. Grand Canyon Education's business is comprised of three pillars. I want to review the performance of each pillar beginning with the GCU traditional campus. In spite of the significant obstacles presented by COVID-19 pandemic and the challenges we just reviewed, GCU's traditional campus is having a remarkably successful [ph] class (04:55) fall semester.

The university's goal this year was 8,800 new students and they started a fall semester with 8,911, up from 8,402 in the fall of 2020. The average incoming GPA of this year's record breaking class was 3.6. The prestigious Honors College at GCU has grown to approximately 2,800 students with average incoming GPAs of 4.1. The number of students held on campus has grown to 15,570, up from 11,441 the prior year. The university built three additional residence halls, thinking it had built out one year out in advance. However, all but 100 beds are filled.

The total number of ground students on campus is 23,628. GCU's traditional campus tuition has not been raised in 13 years, the average GCU student takes out less debt than the heavily subsidized state university students. Parent loan amounts are 50% of the average parent loan amounts at the three state universities in Arizona. The traditional campus is becoming national institution. 35.8% of the students are from Arizona, 22.7% from California and there is significant growth in the Northwest, Midwest and Southeastern parts of the country.

The diversity of the student body is very encouraging as 28% of our students are Hispanic, 6% African-American and 46% are students of color. To prepare for the students this year, GCU invested almost $140 million to add three new residence halls, a huge parking garage, three new restaurants and 55,000 square feet of additional classroom and laboratory space. GCU made this investment with its own cash reserves and additionally has accumulated $407.4 million in cash. The university, after the transaction, continues to be in a very strong financial position.

Two additional residence halls, additional classroom and laboratory space, two new restaurants are being added for next year, as next year's incoming class is expected to exceed 9,600 students. The campus is completely open with no vaccine or mask mandates, and active positive cases on campus are now less than 15 total students. Participation rates at campus activities are at an all-time high. I would also like to note that GCU's sports cumulative winning percentage leads the nation with men's soccer at 85%, women's soccer at 76% and women's volleyball at 78%.

We believe this momentum will take GCU to 40,000 students on the Phoenix campus, but the demand for what is offered is much higher than that. Further building out the current campus to greater than 40,000 students and/or adding additional campus location continues to be evaluated. We estimate that the service fees we earn in this pillar will be 25% of GCE's total 2021 revenues. And we estimate that they will grow to just under 30% of total revenues in the next four years. Our strategic advantages in this segment of the market are very significant.

The second GCE platform I will discuss is Orbis. Dealing with the COVID-19 pandemic across many academic institutions, geographies and hospital settings has not been easy. We have had to be extremely creative and flexible to keep this moving. We have developed technology solutions with our university partners, including virtual simulations and virtual reality projects that have replicated and replaced some of the clinical experiences.

Enrollments have grown to 5,652 across all existing sites, which is a 12.1% increase. Nursing enrolments have actually grown 17%, but we have had a reduction in occupational therapy enrollments due to a backlog in the clinical placements directly related to the pandemic.

Year-to-date revenue from Orbis Partners has grown over 17%. That is not the 20% that we initially projected. But given the significant COVID challenges, we are extremely happy with the performance. The fall semester new and total enrollments exceeded our expectations. We have also exceeded our expectations in terms of the number of partners and the number of locations. There are still regulatory bottlenecks in certain markets, but we still plan to have approximately 40 locations opened by the end of 2022 and will eventually grow to 80 locations. We estimate that the service fee revenues earned from Orbis partners will continue to grow in the mid to high-teens year-over-year in 2022. We estimate that these service fees will be 15% of GCE's total revenues and we estimate that it will grow to greater than 20% of total revenues in the next four years.

The third pillar, Grand Canyon University Online, is the pillar being hit currently the hardest by the pandemic. The working adult online space is very crowded and GCU has a very large student body. GCU Online has 89,838 students as of September 30, 2021, which is flat year-over-year, but new enrollments declined in the low-teens this past quarter.

To combat the very crowded space with most players using the same advertising enrollment and programmatic strategies, we have created a very successful B2B model. GCU has over 4,000 partners with over 17,000 locations in the healthcare, education, counseling, business and technology industries, and greater than 30% of the new starts were coming from those partnerships. When the pandemic hit, which shut down our access to those partners, the new numbers eventually took a hit. The opening up of the country including schools, businesses, hospitals, counseling centers et cetera has been an uneven process, and our new start numbers have reflected that on a year-over-year basis.

New enrollments improved in August and September as schools reopened. However, comps are very difficult in October, November, December and we anticipate new starts to continue to be down some year-over-year. However, meetings with many of the over 4,000 partners are now being scheduled at historic pre-COVID rates. In addition to the B2B strategy, GCU Online is also well-positioned because it has done the difficult work of being able to provide academic programs that lead to professional licensure in a total online environment.

While working adult online enrollments are declining in generic program, whose value is currently being questioned, the licensure programs that GCU offers in education, healthcare, counseling, social work, et cetera continue to be in high demand. To work in these professional areas, academic degrees will always be required. Currently, 36,167 GCU Online students are in licensure programs and that number continues to grow as a percent of the total.

We expect momentum to return next year and eventually return to mid-single-digit new and total enrollment growth at GCU Online. GCE is in a very strong position. Long-term, we are set up to be a mid to high single-digit revenue growth company with margin expansion on a yearly basis. The ground campus has considerable strategic advantages in the marketplace and will grow revenues in the high-single digits and will become larger as a percent of total revenues. GCE/Orbis is in a very high demand space. The country will need an additional 1.3 million nurses in the next five years alone. The path is clear to 80 locations and additional programs will be rolled out over time.

This pillar will produce mid to high-teens revenue growth and will also become larger as a percent of total revenues. GCU Online continues to add a minimum of 20 academic programs on an annual basis. As the country continues to open up and our outside activity resumes to normal levels, we believe revenue will again grow in the mid-single digits. Having three differentiated platforms to grow with high quality students is important because we want to continue to produce quality outcomes.

Even in this pandemic-induced transitional period, we continue to produce good graduation rates, a very low 5% cohort default rate, a 69% 90/10 calculation, low student debt amounts and very low parent loan amounts. We are doing this while at the same time GCE continues to invest in Orbis infrastructure, new online learning and technical administrative infrastructure. And GCU continues to invest in building out the traditional campus, all of which will create growth opportunities for students.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on our 2021 third quarter, talk about changes in the income statement, balance sheet, and other items, as well as to provide 2021 guidance.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

Thanks, Brian. Included in our Form 8-K filed with the SEC, we have included non-GAAP net income and non-GAAP diluted income per share for the three months ended September 30, 2021 and 2020. The non-GAAP amounts exclude the tax affected amount of the amortization of intangible assets. The amortizable intangible assets acquired in the Orbis acquisition totaled $210.3 million and amortization expense in both the third quarters of 2021 and 2020 was $2.1 million. We believe the non-GAAP financial information allows investors to develop a more meaningful understanding of the company's performance over time. As adjusted, non-GAAP diluted income per share for the three months ended September 30, 2021 and 2020 is $1.11 and $1.14, respectively. We typically file our 10-Q alongside our 8-K the first week of November each year. We plan to file our 10-Q when it is – it normally is filed, so that will be next week.

Service revenue was slightly below our expectations in the third quarter of 2021. As expected, the GCU Online enrollment growth rate slowed in the quarter due to the items we have discussed previously. Ground traditional summer and fall semester enrollments and Orbis enrollments were in line or exceeded our expectations. Revenue per student continues to grow on a year-over-year basis, primarily due to increased room board and other ancillary revenues from GCU as compared to the prior year and the growth in the enrollment for students at off-campus, classroom and laboratory sites.

Service revenue per student for off-campus classroom and laboratory sites generates a significantly higher revenue per student than we earn under our agreement with GCU as these agreements generally provide us with a higher revenue share percentage, partners have higher tuition rates than GCU and the majority of their students take more credits on average per semester as they are in accelerated programs.

However, revenue per student continues to be negatively impacted by a number of factors. Revenue per student associated with the GCU contract is being negatively impacted by a decline year-over-year in days in class for its online students. As we have discussed previously, we saw a significant increase in days in class during the last nine months of 2020 and the first few months of 2021 as students took far fewer breaks between courses than previous years. Beginning at the tail end of the second quarter and continuing into the third quarter of 2021, days in class returned to pre-COVID levels as students decide to take breaks between classes.

Second, GCU continues to see a mix shift to less accelerated programs that generate less revenue on a daily basis. Additionally, beginning with the summer 2021 semester and continuing into the fall 2021 semester, Orbis partners have experienced a decline in revenue per student caused by some students delaying their scheduled clinical courses due primarily to vaccine mandates at hospital partners. It is important to note that none of these items reduce the amount of revenue that will ultimately be earned from the student, but it extends the time it takes to complete the program. Included in both our 8-K, – included in our 8-K 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 2021 was 20.3%, compared to 20.2% in the third quarter of 2020 and our guidance of 20.7%. We did make $5 million of contributions in lieu of state income taxes in July 2021, which resulted in an increase in general and administrative expenses in the third quarter of 2021. These contributions are a $1 for $1 reduction in our state income taxes, three-quarters of which is recorded as a reduction in our effective tax rate in the third quarter when the payment was made and a quarter in the fourth quarter.

A number of months ago, GCU engaged a firm to assist them in refinancing the secured note. Today, October 28, 2021, we were formally provided notice by GCU that it will be repaying $500 million on the secured note and have also been informed that they are optimistic that they will be refinancing the rest of the secured note by the end of November, based on the ultimate success of marketing the new bonds. This will eliminate or reduce the interest income earned by us.

As a result of the refinancing, our credit agreement, which consisted of a term loan facility and a revolving credit facility, will be terminated and the remaining term loan amount of $83.7 million along with the $30 million that was outstanding on our line of credit will be repaid.

As we discussed on last quarter's call, in anticipation of the possible repayment, the board of directors increased the authorization under our stock repurchase plan by $970 million and approved a plan to repurchase stock using the expected net proceeds from the refinancing. We repurchased 2,324,316 shares of our common stock in the third quarter of 2021 at a cost of approximately $202.5 million and another 978,779 shares at a cost of $85.6 million subsequent to September 30, 2021.

As of today, including the increased authorization, we have $778.4 million available under our share repurchase authorization. We plan to buy at a minimum an additional $250 million of our common stock with the proceeds to be received on the refinance. And any additional funds received above the $500 million will also be used to repurchase our common stock. We have considered a number of different options to repurchase stock.

In the near term, we will continue to repurchase in the open market rather than through a tender or a large ASR. As a result, we have slightly changed our weighted average share assumptions for the fourth quarter of 2021.

Turning to the balance sheet and cash flows, total unrestricted cash and short-term investments at September 30, 2021 were $61 million. GCE CapEx in the third quarter of 2021, including CapEx for new off-campus classroom and laboratory sites, was approximately $5.6 million, or 2.7% of net revenue. We continue to anticipate CapEx for 2021 will be between $30 million and $35 million.

Last, I would like to provide color on the guidance we have provided for the fourth quarter of 2021. The guidance that we have provided continues to be non-GAAP as adjusted net income and as adjusted diluted income per share as we exclude amortization of acquired intangible assets. Consistent with last quarter due to the uncertainties discussed previously, we have provided ranges for revenue, operating margin and earnings per share for the fourth quarter of 2021. We have tightened up the ranges previously provided based on the current trends, which Brian spoke about a few minutes ago.

On the expense side, we have lowered expenses for the last three months of 2021 based on current expense trends and in addition, we will realize a $2.5 million reduction in technology and academic services expenses related to the reduction in the CECL reserve previously recorded on the secured note. We estimate interest expense will be $1.4 million in the fourth quarter, as although interest expense paid will decline due to the repayment of our credit facility. We anticipate writing off $1.1 million of deferred loan costs.

We believe the effective tax rate for the fourth quarter will be 21.2%, which is slightly lower than our previous guidance. We have adjusted the interest income estimate to $9.5 million for the fourth quarter based on the timing of the repayment of the $500 million on the secured note, and as mentioned earlier, have increased the weighted average shares outstanding slightly due to the estimated timing of the repurchase of the additional $250 million of stock by the end of the year.

If the university refinances an additional amount by the end of the year, we will reduce the remaining $2.5 million of CECL reserves, while interest income will be lower than what is in the current guidance. Weighted average shares will also most likely be lower but not materially, as although we will further increase our buybacks, the impact on the fourth quarter share – weighted average share count will be minimal.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] [Operator Instructions] And our first question is from Jeff Silber of BMO Capital Markets. Your line is open.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Thanks so much. I wanted to first focus on GCU Online; I know you guys usually have pretty good visibility. Have things worsened since we last talked three months ago and specifically what has changed, if anything?

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

A

Yes. I think versus three months ago, things are not as good currently today as they were three months ago. And what's changed is the uneven opening of the country. I'm saying three months ago, schools were opening in August and September, hospitals were a lot more accessible because of in some cases decreased nurse demands in hospitals, counseling centers and those things. And we've – in certain cases, it's just – it's gotten harder. September and October didn't open as fast as we were hoping. And so that 30-plus-percent that we get from that outside activity didn't pick up as fast as we were hoping.

But it's important to note that the 70%, the 65% to 70% GCU Online new starts that we get as a result of the traditional advertising mechanisms, that's strong. We're not seeing a deterioration of our investment in those advertising strategies. But we do believe with these investments, if we went above the current amounts that we're spending. And so the 30% to 35% which eventually in the GCU Online business is going to be 50%. That stuff is coming back a little bit more slowly, but it's coming back and we think next year we're going to be in a very strong position.

The students that we get as a result of that activity are really weighted heavily in the graduate area, and our decline in GCU Online has been primarily a decline in graduate students. And so not only do we get a significant amount of new student starting enrollment from those activities, it's a very, very high quality way to do this business. We get really good students. And so as that thing comes back and as our graduate student number grows, this thing will be – I think it will be back to – we're not saying online will be high-single digits. We're saying mid-single digits above our currently 90,000 students. But as the ground campus grows in the high-single digits and the Orbis campus grows in mid-double digits, that overall we're going to be back to an 80% enrollment growth company.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

And Brian, forgive me, when you were talking about the traditional advertising channels, which still remain strong, did you comment on the cost? Is it getting more expensive to find those students?

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

A

No, maybe it's just a little bit, but it would be much worse. Well, we believe it would be worse if we all of a sudden would spend an additional 30%. If we would spend an additional 30% in our advertising budget, we believe we would see a decline in the return on that, both in the quality of the students and in the cost per lead and cost per start. And so we anticipated that this was going to happen three or four years ago, not only because we now have a very large number of 90,000 students, but because 90% of what's going on in this industry isn't that any different than the things that the University of Phoenix did when we were there a lot of years ago. Very similar advertising strategies, very similar enrollment strategies, very similar programmatic myth, it's the most inexpensive way to get into this business when you don't have a lot of capital to deploy. And which is why we pivoted to that B2B part of what we're doing in addition to pivoting the licensure programs.

And I can't underestimate that because if you're going to prepare teachers at a distance, you have to be able to get [indiscernible] (28:33). You have to set up your observations hours. You have to set up your student [indiscernible] (28:37). We take care of all that work. The same is true in counseling. The same is true in social work and in certain technical areas. And so the investment in that infrastructure, we think, is going to pay really long-term dividends because those – you know right now with so many jobs being available, if you're 28-year-old and you've got your choice of jobs, does it really pay to go back and earn an undergrad degree in business administration, that seriously being questioned.

But if you want to be a counselor, you got to be like, you're not unless you counsel, you can't provide counseling with online, same in social work, same in teacher education, same in nursing. And so those two things that we pivoted to a number of months ago are going to allow us to recover from this transitional period and I think be in a very strong position when we come out.

Jeffrey M. Silber Q
Analyst, BMO Capital Markets Corp.

Got it. And if I could just ask Dan, a quick question, I just want to make sure I understand what's embedded in your guidance in terms of the share repurchase. So I think you said in the third quarter and so far this quarter to-date, you've repurchased I think about $288 million worth of stock and you're expecting to purchase at least another $250 million, is that what's embedded in the guidance for this year?

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

Yeah. Yeah. But it's pretty evenly over the rest of the calendar year, and that as you get out towards the end of the year, it has a pretty low effect on the weighted average shares outstanding. But yes, that's...

Jeffrey M. Silber Q
Analyst, BMO Capital Markets Corp.

Got it. [indiscernible] (30:12). You don't carry over into next year. Okay, great.

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

Yes.

Jeffrey M. Silber Q
Analyst, BMO Capital Markets Corp.

Just wanted to check the number. Thanks so much. I'll get back in the queue.

Operator: Thank you. And our next question is from Jeff Meuler of Baird. Your line is open.

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

Q

Yeah. Just trying to connect the pieces on what you've given us and try to make sure I'm understanding the magnitude. So the roughly 70% channel, new enrollments from that channel are actually growing year-over-year, and the decline from the 30% or so channel is causing the, well, I guess more than causing the low-teens total decline in terms of online starts for GCU?

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

A

Yes. Yes. And so again, the return we're getting on a traditional investment is not in decline. We're getting good returns [indiscernible] (31:05) returns than what we've gotten. But I want to add, I think if we had to increase the kind of spend – that kind of spend, I do think we see a deterioration at that point.

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

Q

And then if you could just help me, you gave us a statistic about like numbers of partners or number of locations. And you were kind of giving us some month-by-month. So I guess what I am wondering is how much does this look Delta wave driven? And I know it's impossible to predict if there will be future waves, so maybe it will remain uneven. I don't know if you can tie it to that, and it's since been getting better. And then if you could just help us with what you were telling us with like how many of the – I think over 4,000 partners are you back live with? And just how broad was that statement about the number of meetings that you're setting up looking like pre-pandemic levels? Like how broadly does that apply across the partner network?

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

A

It applies very broadly across the partner network. I don't give a lot of details with – in terms of a lot of the work that we're doing. It's extremely high quality work. I'll give you one example, schools. I just had a meeting with some superintendents locally yesterday in Arizona. Schools are really, really impressive with finding teachers, with finding counselors and with finding social workers. And like a lot of industries, when you can come in with a strategy to want, for example, help them grow their own, they are incredibly receptive to that and grateful for that.

And so there are school districts where we will put together cohorts of paraprofessionals, and those are people with usually associate degrees, they're helping out in the classroom and they would like to become [indiscernible] (33:10). And it's a fantastic way for school and school districts to grow their own employment base. And it's a scalable option. That's an example of how we work inside school districts, inside schools to put together custom programs that help them satisfy and meet their human resources. We do the same in the counseling areas. There are a lot of people with bachelor's degrees in counseling that if you can get them involved in a master's degree program that will lead to licensure, also move they home – they move from your current level of responsibility up significantly.

And so there is a huge amount of work to do in that area. Military bases have a very, very difficult time with developing cybersecurity specialists. They can't get them from outside. We have great programs at both the undergraduate and graduate level, they can help current military members grow into those positions, and so that work is really high quality work. It leads to a real high quality student for GCU. It satisfies the human resource needs for the groups that we work with, but it's a trailing kind of an effort. You first have to get back in and then you have to do the meetings and you have to get the students in and the revenue follows back.

And so the reason we didn't go away from that is because the momentum there prior to the pandemic is just so strong in producing very high quality students, the majority of them are at the graduate level. And so we didn't switch sides in the middle of the pandemic, we took a hit as a result of that, but the pandemic is not going to last forever and what we're doing is producing such high quality outcomes that we stay with our strategy and I feel extremely optimistic about how we're going to come out.

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

Q

Okay. And then on just expense planning and budgeting for 2022 especially with how the recovery sounds like it's been pretty uneven for a while now. You obviously have a unique model in terms of this provider model, but just trying to understand where you need to preserve investment, where you can flex spend just given that we've had a couple of quarters now of new enrollment declines and we're also in a high inflation environment generally. So can you just help like with a framework for how you think about managing expenses through an environment such as this or where you can cut or how aggressively you would look to make adjustments?

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

A

Well, I mean, I think that to start with on the positive side, the fact that the ground campus is putting enrollment in high-single digits and has a pathway to growth for a significant amount of years. And they're going to become increasingly at a higher percent of the overall revenue and the revenue per student is growing there. That is a very strong part of our strategy.

The same is true for Orbis. Orbis can grow in high 15%, 16%, 17% and eventually more from a revenue perspective. And the revenue per student numbers at Orbis are significant and there's a clear path to AE. So that really helps negate the pressures of GCU Online. GCU Online issue what is number 90,000 students, the crowded space. And so we had to thank goodness that we've been differentiating our strategy through three or four years now.

And so the I guess the ultimate answer to your question here is towards the middle of next year, we believe the student numbers at GCU on the – number one at ground and workers will continue upgrading the high level and the online campus will slowly get back towards the middle of the year to where we're operating on all cylinders, I think capable of being back into a 4% or 5% revenue growth part of the business. Then together, by the end of the year, we're going to be 98%. It's going to take 6 to 12 months for that to happen.

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

A

The other thing I would add is we can't forget what 2020 was at GCU Online, I mean, that was basically a team's total enrollment growth year, which given our size, we never dreamt we would be there. But it was, as we've talked about before, the perfect storm from a new re-entry, drop and graduation percentage. This year, unfortunately, has been the perfect negative storm where new enrollments have been under pressure but still have re-entries drops grads.

So as we get into next year, we think things will all start to normalize. I think, new enrollments, we feel very good about our ability to start growing new enrollments again next year, especially once we get through the first quarter, which was also very inflated. But starting in the second quarter, we feel very good about our ability to grow and then drop three entries and grads should normalize. I mean, that's been one of the problems with the total enrollment growth rate is that, total enrollment growth rate this quarter was basically flat, but graduates were up almost 15% year-over-year in the quarter.

So, we have those challenges as well. I think from an expense standpoint, we're not planning on changing anything materially. We are – this company makes a lot of company, it does very well and we feel very good as Brian said about the long-term hearing. So we're not going to start cutting a bunch of things. In fact, we're going to start – we're going to continue to invest. We're going to – travel expenses are going to take another step up next year as the world opens up more. That's a big part of our strategy, as Brian's talked a lot about. But we feel good about our ability long term to grow margin.

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

A

And let me add to that and say, during the worst of the pandemic, we didn't lay off anyone. There were no layoffs. There were no furloughs. There were no pay reductions. We continued to – we have less than 1.5% faculty turnover rate. It's unheard of with a full time faculty. But we weren't going to lay those people off. We were going to furlough them. We weren't going to reduce their pay. And the same thing is true about those people that were outside doing that outside work.

We've invested too much in them and we weren't going to lay them off and we weren't going to do furloughs and pay reductions. We could have done some of those things. But we have I believe a very strong culture. Our people know that we're extremely loyal to them and payrolls where you could have done. But long-term, we're going to benefit from the fact that we kept people employed and we kept, we've had pay increases. And so, I think we – obviously, there were a lot of companies that did that. In the long run, that would not have been the right thing for us to do we don't think.

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

Q

Yeah.

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

A

We feel very good about the long term of the company. We're fortunate that this repayment of the secured note is coming at a time, at this time we'll continue to buy back our stock and so our earnings, EPS will go up next year, and we're hopeful that investors will appreciate that even if revenue isn't growing in the near term as fast as we all would like and an operating income is not growing as fast as we'd all like, but we believe strongly that it will be back at our historical raises Brian will walk-through in the call soon.

We think this is a very temporary time where the world as you all know is kind of upside down. And so things are not going like clockwork, like they did for us for 13 years, you had a year where things all accelerated really quick for GCU Online. Now you have a year where things are challenged for GCU Online. But we think once we all get through this, this period don't get back to clockwork with nice mid-single-digit growth every year.

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

Q

Got it. Appreciate all the perspectives. Thanks, guys.

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

Okay. We have reached the end of our third quarter conference call. We appreciate your time and interest in Grand Canyon Education. If you have still questions – it looks like we do have one more question. Operator, is Phillip on the line?

Operator: Yes.

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

Okay. Sorry.

Operator: Phillip Leytes of Berenberg Capital. Your line is open.

Phillip Leytes
Analyst, Berenberg Capital Markets LLC
Q

Hey, guys. Yeah. Sorry, I got disconnected a couple of times. And with that, maybe this is asked, but is there any chance you can break out kind of the performance of the B2B partner enrollments in the traditional online ad driven channels? I think it would be great to kind of have some more insight on that. And sorry, sorry if I missed that is disconnected for a bit.

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

No, it's indicative, the partner relationship, the custom building of the programs is about 30% of what we do now and growing. So it's like 30/70.

Phillip Leytes
Analyst, Berenberg Capital Markets LLC
Q

Okay. And did you guys and just to confirm, did you mention the Orbis enrollment numbers?

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

Yeah. Yeah. We provided, I can provide it again. Orbis enrollment 5,652.

Phillip Leytes
Analyst, Berenberg Capital Markets LLC
Q

Okay. Thank you.

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

Okay. Well, again, we appreciate your time and interest in Grand Canyon Education. If you still have questions, please contact myself, Dan Bachus. Thank you for your time.

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