19-Feb-2025

Grand Canyon Education, Inc. (LOPE)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

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

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Alexander Paris
Analyst, Barrington Research Associates, Inc.

MANAGEMENT DISCUSSION SECTION

143Operator: Good day and thank you for standing by. Welcome to the Q4 2024 Grand Canyon Education Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to turn the conference over to your speaker for 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 will turn over the call 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 2024 conference call. GCE had another solid quarter, producing online enrollment growth of 7.1%; and hybrid growth, excluding the closed site and those in teach-out, of 14.9%. We also continue to produce strong retention rates while, at the same time, investing heavily in initiatives for our university partners. The investments GCE and its 22 partner institutions are making are based on the belief that there is a vast amount of untapped potential in today's workforce.

Many recent high school graduates did not go to college this year because of exorbitant tuition rates, potentially exorbitant debt levels, and difficulty managing the FAFSA website. Many working adults, who could benefit from higher education, are not attending because of the lack of creative delivery models that do not take into account their life situations. Grand Canyon Education will continue to grow at our stated goals over the long run because we are addressing those challenges in ways that work for students and employers.

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 mid-single digits in the fourth quarter 2024 on a difficult year-over-year comp and total enrollment growth was 7.1%, which was slightly – which slightly exceeds our long-term objectives.

We anticipate starts for the first quarter to be up in the mid- to high-single digits. There are many reasons for this, but I want to highlight four. One, we have stayed focused on opportunities that exist in today's labor market, and since the beginning of the pandemic, GCU has rolled out 148 new programs, emphases and certificates across the 10 colleges.

These programs are tied directly to labor market opportunities for students. One of the responses of universities to declining enrollments is to reduce the number of programs they offer. 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 military. In the fourth quarter, new starts from this work increased 12.5% year-over-year.

Number three. The retention of students in the fourth quarter remained strong, which we believe continues because of the relevancy of the programs that students are entering and their direct tie to the students' career aspirations. Four, GCU has resisted responding to the slower growth by raising tuition significantly, which many institutions have done. Online net tuition increases since 2018 have averaged approximately 1% per year. We believe new start growth will remain in the mid- to high-single digit rates in the first quarter of 2025 and continue at that level during the rest of 2025.

Second, the GCU ground campus for traditional students. As has been previously discussed, new and total traditional campus enrollments were down slightly year-over-year in the Fall of 2024 for the reasons discussed on previous calls. We believe GCU will reaccelerate growth on the ground campus, because of its significant advantages, including a very low price point, very low average debt levels, percent of students completing in less than four years, and the relevancy of GCU's academic programs. GCU still plans to grow its traditional campus out to 50,000 students.

It is our understanding that the Department of Education continues to work on fixes to the FAFSA issues and that the initial results have been positive. We believe that this, along with a number of strategy changes to address this specific challenge for 2025-2026 that we have made, will help us meet the university's new enrollment growth goals.

Although the Spring intake is much less than the Fall, we did see an increase in new students starting at GCU in Spring 2025 as compared to Spring 2024. We also are ahead of last year in new student registrations for the Fall of 2025. So, although it is early in the recruitment cycle, the current trends are positive.

Third, Grand Canyon Education's hybrid campus had an increase in enrollment year-over-year of 9.8% in the fourth quarter. Excluding the closed sites and those that are on teach-out, enrollment increased by 14.9% year-over-year. We expect the new enrollment growth rate to be up in the low- to mid-teens during Spring 2025 and the rest of 2025.

There are two main reasons for this continued growth. 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 have 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 and some other gen ed courses, so they could be delivered online in eight weeks. Students can access those 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's a tremendous amount of academic support, including an artificial intelligence project, which provides students 24/7 access to tutoring.

Since implementing these courses, we have already enrolled approximately 12,412 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 in the high-80s, and the first time pass rate on the NCLEX exam is approximately 90%.

We now have an extremely efficient way to get students academically eligible and prepared to enter the program. These positive results, we anticipate, will continue. 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 the bachelor's degree in another area and are currently underemployed. Nearly all our partners have responded positively to the change needed to serve the advanced standing students. Our goal is still to have 80 locations with our partners, with 40 of those locations being GCU locations.

Fourth, the Center for Workforce Development at Grand Canyon University. In 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 in the first year.

This past school year, we started 233 students in the program. 123 students completed this program in the Fall and 82 in the Spring of 2024. GCU had 164 students enrolled in this program in the Fall of 2024, including 23 in Austin, Texas. A year ago, GCU also started 19 students in a manufacturing certificate program and had 23 students in that program this Fall.

GCU is running a small parts manufacturing business on campus that is doing work for some of the major companies in Arizona. These students are attending 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 receive a manufacturing certificate, become 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 22 partner institutions.

In the six-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 183,632 students; 50,016 in education, including 24,000 first-time teachers at a time when teacher shortages have created a national crisis; 49,320 in nursing and healthcare professions, including 2,834 pre-licensure nurses at a time when there is a huge shortage of nurses; 37,119 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 31,986 graduates. The College of Science, Engineering and Technology has grown by 216% and provided 4,575 graduates. The Doctoral College, Honors College and College of Theology also continue to grow. In addition, GCE has helped its other partner institutions graduate 17,644 pre-licensure nurses in occupational therapist assistants. The numbers that I have just cited have all happened in the past six-plus years since GCU-GCE transaction and since GCE has become an education services provider.

Service revenue was $292.6 million for the fourth quarter of 2024, an increase of $143 (sic) [$14.3] (00:11:17) million, or 5.1% as compared to $278.3 million for the fourth quarter of 2023. The increase year-over-year in service revenue was primarily due to an increase in GCU enrollments of 5%, an increase in university partner enrollments at our off-campus classroom and laboratory sites of 9.8%, and an increase in revenue per student year-over-year. Operating income and operating margin for the three months ended December 31, 2024, was $100 million and 34.2%, respectively.

As Dan will discuss in more detail in a moment, we booked $1.9 million in impairment and other charges in the fourth quarter. Excluding those charges, operating income for the three months ended December 31, 2024, was $101.9 million, an increase of $4.1 million as compared to $97.8 million for the same period in 2023.

The operating margin for the three months ended December 31, 2024, excluding those charges, was 34.8%, as compared to 35.1% for the three months ended December 31, 2023. Net income increased 1.4% to $81.9 million for the fourth quarter of 2024, compared to $80.7 million for the same period in 2023. GAAP diluted income per share for the three months ended December 31, 2024, was $2.84. As adjusted, non-GAAP diluted income per share for the three months ended December 31, 2023 (sic) [2024] (00:12:51) is $2.95, which is $0.02 above consensus estimates.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on our 2024 fourth quarter, talk about changes in the income statements, balance sheet and other items, as well as to discuss the 2025 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, 2024, and 2023. 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 2024 and 2023, the tax effected amount of impairment and other of $1.9 million for the three months ended December 31, 2024, and the tax effected amount of the losses on fixed asset disposals of $0.2 million for the three months ended December 31, 2023.

We believe the non-GAAP financial information allows investors to develop a more meaningful understanding of the company's performance over time. As adjusted non-GAAP diluted income per share for the three months ended December 31, 2024, and 2023 is $2.95 and $2.77 respectively.

Service revenue was higher than our expectations in the fourth quarter of 2024, primarily due to higher-than-expected revenue per student and slightly higher-than-expected enrollments. Revenue per student continued to grow on a year-over-year basis, primarily due to the growth in hybrid ABSN students, as these students generate 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, the partners have higher tuition rates and the majority of their students take more credits on average per semester as they're in accelerated programs. We also recognize slightly higher-than-expected revenue due to one hybrid partner electing to convert its contract from a revenue share to a cost plus agreement. As a result, we will see minimal revenue from this partner in the future.

As was expected, revenue per student was negatively impacted in the fourth quarter of 2024 due to the earlier start of the Fall semester. The Fall semester started two days earlier in 2024 than in 2023, which had the effect of shifting $2.2 million in service revenue from the fourth quarter of 2024 to the third quarter of 2024.

In addition, contract modifications for some of our university partners in which the revenue share percentage was reduced in exchange for us no longer reimbursing the partner for certain faculty costs had the effect of reducing revenue per share (sic) [student], as did the slight decline in ground traditional enrollments and continued mix shift to online programs that have lower net tuition rates.

The fourth quarter operating margin was negatively impacted on a year-over-year basis due to the timing of the Fall semester start, contract modifications and impairment and other charges of $1.9 million. The impairment and other charges includes the write-off of an internal used software project that we had been attempting to develop for our other university partners that has been terminated and costs related to off-campus classroom and laboratory sites that have been closed.

Our operating margin in the fourth quarter of 2024 was slightly lower than our expectations, primarily due to additional spend for 2025 partners' initiatives and higher-than-expected benefit costs. Our effective tax rate for the fourth quarter of 2024 was 21.2%, compared to 19.9% for the fourth quarter of 2023 and our guidance of 21.2%. The effective tax rate increased year-over-year due to higher state income taxes.

We anticipate this trend of higher state income taxes will continue. We repurchased 416,497 shares of our common stock in the fourth quarter of 2024 at a cost of approximately $64.8 million and another 226,258 shares were repurchased since December 31, 2024.

We announced today that on January 29, 2025, the company's board of directors approved a $200 million increase under its existing stock repurchase program. We have $260.7 million remaining as of today, which includes the increase in January 2025 under our share repurchase authorization. The board and the company intend to continue using a significant portion of its cash flows from operations to repurchase shares, and we anticipate daily purchases to continue during 2025.

Turning to the balance sheet and cash flows. Total unrestricted cash and cash equivalents as of December 31, 2024, were $324.6 million. GCE CapEx in the fourth quarter and full year 2024, including CapEx for new off-campus classroom and laboratory sites was approximately $9.7 million, or 3.3% of service revenue and $37.2 million, or 3.6% of service revenue respectively. We anticipate CapEx for 2025 will remain comparable with prior year at between $30 million and $40 million.

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 prior years, we have provided ranges for revenue, operating margin and earnings per share for each of the four quarters of 2025. We do this because our financial results are seasonal. As you have probably noticed, the midpoint of the guidance is slightly below consensus estimates. This is not due to any concern about current trends. As Brian mentioned, the current trends for all of our pillars are very positive.

The high-end of estimates would result in a high-single digit revenue growth and an increase in full year margins, which is slightly better than our previously provided commentary on our expectations for 2025. The low-end of guidance assumes slightly lower-than-expected enrollments in each of our pillars, primarily in the back half of the year, where our current visibility is more limited, and thus, the midpoint takes those assumptions into account. We believe continuing to provide this range of outcomes is prudent.

We anticipate that both new and total online enrollments will be up year-over-year in the mid- to high-single digits in each quarter during 2025. We do anticipate continuing to experience a decline in the growth rate of reentries, students returning to school after break due to 2024 retention rates, and an increase year-over-year in graduates, both of which will put pressure on the total enrollment growth rate.

The high-end of guidance assumes total online enrollment will end 2025 up in the high-single digits year-over-year, which would be an acceleration in total online enrollments, whereas, the low-end assumes a mid-single digit year-over-year growth rate, and thus, the midpoint of our range assumes a year-over-year growth rate that is near the high-end of our stated long-term objectives.

The revenue range assumes that the GCU ground enrollment will be 23,100 in the Spring, will range from 7,800 to 8,200 in the summer, and be between 24,500 and 26,100 in the Fall. The high-end of the range assumes a mid-teens new start year-over-year growth rate for the ground campus, while the low-end of the range assumes flat new start growth and a slight decline in total ground enrollment due to the continuing increase in the number of graduates year-over-year, as a significant number of ground traditional students continue to graduate in under four years. Thus, the midpoint assumes a high-single digit increase in new ground enrollments.

The reported ground number continues to include GCU hybrid, which continues to grow and professional study students, which continues to shrink. As Brian discussed earlier, the new student and total enrollment growth rate in the hybrid pillar is predicted to grow on a year-over-year basis in the low- to mid-teens during each of the four quarters of 2025. As has been previously discussed, the hybrid growth rate is being impacted by the fact that we have 10 locations that are at or near capacity, and thus will have little to no growth year-over-year in total enrollments at those locations.

We are hopeful that a lot of these locations will get local regulatory approval to grow in the future as they currently have waitlists. We also continue to be negatively impacted by the fact that a couple of partners are still not accepting students without completed bachelor's degrees. But even with these headwinds, the growth of this pillar should remain strong.

As was discussed on last quarter's earnings call, revenue is being negatively impacted in 2025 as compared to 2024 as leap year increased revenue in 2024 by an estimated $1.5 million, and we estimate that the contract modifications and site closings further lower revenue by $8.9 million in comparison to 2024. This results in a slight expected decrease in revenue per student year-over-year. Excluding these impacts, we anticipate a slight increase in revenue per student year-over-year, primarily due to the hybrid pillar growing at a faster rate than online or ground.

Online revenue per student would be flat to slightly down year-over-year due to the mix shift, as programs have slightly lower net tuition rates. Revenue per student is also negatively impacted in the first half of the year by the slight year-over-year decrease in ground traditional students.

On the expense side, as you recall, after a pause on certain investments, primarily in head count, in the first nine months of 2024, we ramped up hiring and other spend in the fourth quarter of 2024 and anticipate this continued investment in the first half of 2025 to meet the growth goals of our partners. The additional hiring will have the biggest impact on counseling services and support, but we also see increases in technology and academic service costs.

As I have discussed previously, the online programs, primarily those that lead to licensure in which GCU is growing at an accelerated rate, either cost us more to service than the traditional online programs, or at lower net tuition rates which is putting some pressure on our margins. We also continue to absorb significant increases in both benefit costs and technology services. As it relates to the hybrid pillar, we will incur additional costs for the new hybrid locations that have opened in the last six months or will open in 2024 and 2025. But we are experiencing increased site-level profitability due to the increasing enrollments.

Last, we anticipate an increase in legal fees again in 2025 over 2024 as we have a couple of lawsuits filed in prior years that are expected go into the discovery phase and/or into trial during 2025. Estimated litigation fees and regulatory costs are included in our operating income guidance, but are excluded in our non-GAAP measure adjusted EBITDA.

So to summarize, we should see a slight decline in margins in the first half of 2025 due to the investments and other items noted, but are optimistic that margins will expand in the second half, especially if revenue is in the top half of our revenue range due to the leverage in our business model, and that full year margins will be up year-over-year. We are estimating that interest income will decline year-over-year in 2025 as we are assuming declining cash balances due to more aggressive stock buybacks and a declining interest rate environment.

We believe the effective tax rate for the four quarters of 2025 will be 22.2%, 24.9%, 24.9% and 24.1%, with a full year tax rate of 23.8%, which is an increase over our 2024 effective tax rate. The effective tax rate continues to rise due to higher state taxes as we continue to add new sites in states outside of Arizona, which have higher state tax rates and other factors. These estimates do not assume a contribution in lieu of state income taxes, but 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 increased spend to buy back shares, although given the rise in the stock price, we anticipate purchasing a similar number of shares in 2025 as in 2024. 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 multiples of other education companies, as although, we can be viewed as being in the same sector, there are few, if any, appropriate comps.

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 is going to come from the line of Jeff Meuler of Baird. Your line is open.

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

Q

Yeah. Thank you. Good afternoon. You commented on being ahead of last year on new student registrations for the Fall 2025 growing campus intake. Can you just broaden out that discussion since you have some pretty lofty growth goals, and it's against kind of a depressed level? Just anything else you can say on demand inquiries, Discover GCU visits, just conversion initiatives to give us confidence in those growth goals.

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

A

Yeah. Great question. Couple of things. One, we did make an adjustment to our Discover GCU process. We were pretty open with that last year and the number of Discover GCU students went up significantly. We really tightened that up. We are asking students to get their transcript to us, we want those transcripts evaluated and then we want to have a one-on-one meeting with them and their parents via Zoom before we have them visit campus. And so, the number of Discover GCU business as a result is down, but the conversion rate is up. And so, our registrations are fairly significantly ahead of where they were at the same time last year.

The second thing that's really important is that we have some workaround strategies with regards to students that are Pell eligible, or we think will be Pell eligible. And those workaround strategies, we think, are going really well. We're able to provide students with information that's important to them. And as a result, they're making decisions to register at the university, which includes a down payment and then also register for a room, if they're out-of-state students. And so, we set a very aggressive goal, which was 15% increase over new students last year. But early indications are that that thing, that's going very well. And so, we – obviously, it's early, and we got to keep working at this. But at this point, we feel very good about it.

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

Q

Got it. And then you gave us some metrics on kind of ABSN or hybrid academic outcomes. Was that for all ABSN students, or was that specific to the advanced standing students, or can you comment on the academic outcomes you're seeing for the advanced standing students, or your partners are seeing, I guess, relative to the heritage career changer degree model?

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

No, that's for all students. That's for all ABSN students. And that's – we are so excited about where this thing is now going for a number reasons. Number one, we've identified this type of student who can best benefit from becoming a nurse. And if that student who has earned some college credit, does not have a completed degree, hasn't gone into a serious amount of debt. The whole concept of going after students that were near the completion of their program had already incurred a lot of debt, and then encouraged them to take on more debt to do prerequisite courses, and then eventually the ABSN program just didn't make any sense. We've identified the right kind of student now for the program that we're offering.

The second thing we did was we had to put in place the science courses in a way that students could access them and complete them at high rates, and that thing has just exploded. So, we've got students that are 30 or 40 college credits maybe into their degree, they haven't incurred a lot of debt, but they've shown that they can do college coursework. They're now converting to taking these online courses, which we priced very low, so that they wouldn't have to take on debt to take them. And they're passing them at an 80% rate with a grade of B or better, which allows them then to use those credits to get into our ABSN program.

Once we get students to the door of our ABSN program, whether it's through GCU, or whether it's through one of our other partners, our success rate is 88% or 89%. And then our first time pass rate on the NCLEX examination is about 90%. And so, the sky is the limit now as far as where we're going with this thing. We anticipate 80 locations and we anticipate at least 300 nursing students per location, which would bring total to 24,000. Today, we're a little over 6,000. And so, the fact that there's this huge nursing shortage and the fact that we've figured out a scalable way to produce these with very high quality outcomes is really exciting.

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

Excellent. And then just one for you, Dan. If you – what's the – what are your current thoughts on the ongoing margin target financial model? Like if you exit 2025 at the targeted enrollment and revenue growth rates, would you expect that you're back to consistent margin expansion from there, or do we need to consider the hybrid, I guess, mix shift?

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

Yeah. I think all of the above. I think that you always need to focus on the hybrid mix shift for that part of our business. It'll never have the margins that the GCU contract will have, but we believe that the long-term margins could be 20%. And again, we don't do segment reporting, we don't look at financials that way, but to give you kind of a sense of how we think about it. But I think that you have to factor that in.

On the GCU contract, I think we're – there's – as I mentioned earlier, there's a little bit of pressure on margins the first half of the year because of the ground traditional campus of GCU being down slightly. If we can get back to growth – consistent growth for the GCU contract – I'm sorry, for the GCU ground traditional campus, we think we'll see continued slight margin expansion on the GCU contract, like we historically had.

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

Q

Got it. Thank you.

Operator: Thank you. And our next question will be coming from the line of Jeff Silber of BMO Capital Markets. Your line is open.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Great. Thanks so much. Dan, you mentioned the GCU contract. And if I remember correctly, the Master Services Agreement with GCU expires in July. Can we talk about what's going on in terms of re-upping that? And any color would be great.

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

A

It doesn't expire in July. There was an early out that begins in July, which the university has not exercised. So it continues. It's a 15-year contract. We're 6.5 years or so into that. So the expectation is for it to continue to go. There has been some conversation between GCE and GCU about extending the contract early, given that it seems to be working out really well for both parties. So that could be something that comes, but we still have a number of years left under the contract.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

All right. My mistake. I really appreciate you clarifying that. Maybe I can switch over to discussing the hybrid program. Can you remind us how many locations you have now? What the ramp-up is? I know you've got a goal for 80, but I'm just curious, what the ramp-up is going to be to get there?

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

A

Yeah. We have 45 sites open now, and the goal is to get to 80. And we'll probably going to be opening six to eight per year. And so, you can do the math in terms of how long it'll take us to get to 80, but things are going well.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay, great. And then you had mentioned some of the headwinds that the programs are facing. Is there anything you can do from your end to mitigate those headwinds?

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

A

Well, that – I mean, it's a regulatory thing. So, we just continue to produce good outcomes through our partners, and the hope is that they will eventually allow us to increase above the current capacity constraints they have. An example of that, a recent example and we're very hopeful is the West Phoenix location for GCU grew to that maximum 300 students very, very quickly, and they are currently having conversations with the State of Arizona about going above that 300 for that location.

And so, you produce good outcomes. I think the state is – and you can commit to delivering the clinicals. I think that gives the state comfort that you should – you could go above those amounts. I can tell you the discussions we're having with some fairly large states are so positive, Florida specifically. We have such a track record now of producing really stellar outcomes in terms of completion rates, in first time pass rates on the NCLEX examination, which people were worried about because of our scale. But we consistently are producing those results. And so, the conversations are just getting more and more positive, because in every state, there's a shortage of nurses. And so, the model is – the outcomes of the model are so strong that we think, from a regulatory standpoint, this is just going to get easier and easier for us as we move forward.

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

All right. It's great to hear. If I could just finish it up with one and you mentioned regulatory. With all the noise coming out of Washington, D.C., has there been any impact in terms of receiving funds, program approvals, anything else going on that we should be aware of?

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

No, not really, other than it's – the thing that we like the most is that there's such – there's so much talk about outcomes. Whether it's at the K-12 level or at the higher ed level, there's so much talk about outcomes. And what we're producing from a GCE perspective with our 22 partners are stellar outcomes. Higher education has serious issues. And I think this administration is showing signs that they recognize them and want to do something different. Tuitions are too high. Tax subsidies are – the requirement from state tax subsidies are too high. The debt levels are too high.

Programs aren't tied directly enough to where the new job opportunities in the labor market. Every time tuition goes up, diversity goes down, and we accomplish in higher education the exact opposite what we're trying to accomplish. And so, we believe that this administration is going to be extremely excited about the model we have and what we're accomplishing because we're helping solve problems. There's a tremendous teacher shortage and this model is producing new teachers at an unbelievable rate.

There's a tremendous nursing shortage. There's a tremendous shortage in the areas of counseling and social work. And those are licensure programs that are very difficult to offer at a distance, but we're doing it and we're doing it successfully with our partner institutions, and we're doing it without excessive debt levels and without raising tuition. And so, I think that this administration is going to be very excited about the outcomes we're producing because they're so in line with what they keep – what they talk about in terms of how they're thinking about the future of education in our country.

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

All right. It's great to hear. Thanks so much.

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

Yeah.

Operator: Thank you. And our next question will be coming from the line of Alex Paris of Barrington Research. Your line is open.

Alexander Paris
Analyst, Barrington Research Associates, Inc.

Q

Hi, guys. Thanks for taking my question. I just have a couple here at the end. First of all, just kind of continuing the conversation about regulatory, Linda McMahon has been confirmed as the Education Secretary. Nicholas Kent has been nominated as the Undersecretary. The thought is Linda McMahon is going to work her way out of the job in time, the elimination of the Department of Education. Whether that's likely or not, I'd be interested in hearing your thoughts about the changes going on in the Department of Education, and how that could potentially affect or not Grand Canyon University and your other partner institutions?

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

A

There's – and let me just repeat a little bit of what I said in the previous answer. There is – just all of the talk coming out of Washington, D.C. with regards to education, whether the K-12 level or the higher ed level, is focused on outcomes. People are very, very disappointed with the outcomes we're producing in terms of student achievement in the K-12 world, and people are very disappointed about the outcomes that are being produced on college campuses.

There is a lower percentage of – or there's fewer high school graduates in the last two years, but there's a fewer lower percentage of them going to college, which is not good long term for the country. And when we talk – the reason we talk so much about graduates is that university's ability to offer programs and delivery platforms that allow them to produce graduates, especially in licensure areas that are very difficult to do, is going to be a very desired asset.

And our model, the GCE as a service provider, that model is producing tremendous results for our partner institutions. We did end one contract, but almost everybody else, GCU and all 21 other partners want to do more with us, not less. Want to produce more, not less. And so, the infrastructure that we have at GCE, the [ph] $300 million (00:41:22) administrative system, the ability to things at a distance, and to take into account the person's lifestyle, and with their – those things are all things that, I believe, this administration is going to be very interested in.

There is a tremendous amount of untapped potential in the workforce today. There's a nursing shortage, which is ridiculous. And it's only because we can't deliver creatively to people who want to become nurses and can become nurses. The same thing is true for teaching, the same thing is true for counseling and social work, the same thing is true in cybersecurity, and I can name other areas. And so, I think we'll do our best to become a part of what needs to be solution-oriented strategies. And we think that this administration is going to be extremely excited about supporting the things that we're doing because we're producing results. We're producing the kind of outcomes I think – they think are going to be exciting.

Alexander Paris
Analyst, Barrington Research Associates, Inc.

Q

Great. That's helpful. I appreciate that additional color. Also, during the fourth quarter, you had a big win in the courts. The Ninth Circuit ruled resoundingly in favor of your appeal regarding the not-for-profit decision and remanded it back to the Department of Education. I think this happened a couple of days after your last conference call. I was wondering if there's any updates there in terms of expected timeline and so on for the Department of Education to make some comment?

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

A

No. I mean, that was GCU. And obviously, GCU is elated because it was made clear that we said all along – what GCU said all along was true, which is that it went through a completely legitimate process to regain its non-profit status. It was approved by the IRS who has the authority to make that approval. They've got the expertise and the authority to do it. GCU has been operating successfully as a non-profit for six years.

And so, for an objective court to vote unanimously, that the Department was outside their scope of authority in making that ruling was completely appropriate, and it's now been remanded back to the department. We don't know anything further, other than we're going to have a new Secretary of Education, I think, soon. And we'll see how that impacts, what the remand – how that turns out. But we're very – GCU was very hopeful that this was a major milestone in the whole attack that has taken place in the last four years. And GCU, I know, is very hopeful that this will be behind it soon, but that was a major important ruling from an objective court that ruled unanimously in GCU's favor, which is extremely positive result.

Alexander Paris
Analyst, Barrington Research Associates, Inc.

Q

Yeah, that's great news, and obviously long overdue. Last question and maybe this one's for Dan. Given your expectations, which are in keeping with previous commentary on the hybrid pillar, up low- to mid-teens in the Spring and for the rest of 2025. Based on those expectations for enrollment, is it still your expectation that hybrid as a taken together will crossover – cross back to profitability in 2025?

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

A

Yeah. Again, we don't really monitor that from a financial perspective anymore. We don't – we've centralized so many services at the GCE level that we just don't look at it that way. But given where the site – I talked this earlier, but where the site margins are for all of the locations, I think that's an appropriate expectation.

Alexander Paris
Analyst, Barrington Research Associates, Inc.

Q

Great. Thank you very much.

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

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

Operator: Thank you all for your participation. This does conclude the program. You may now disconnect.