THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

LOPE - Q1 2019 Grand Canyon Education Inc Earnings Call

EVENT DATE/TIME: MAY 07, 2019 / 8:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Brian E. Mueller *Grand Canyon Education, Inc. - CEO, President & Chairman*

Daniel E. Bachus *Grand Canyon Education, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Jeffrey Marc Silber *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Nick James Nikitas *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

Peter Perry Appert *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2019 Grand Canyon Education Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to hand the call over to Mr. Dan Bachus, CFO. You may begin.

Daniel E. Bachus - *Grand Canyon Education, Inc. - CFO*

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

Brian E. Mueller - *Grand Canyon Education, Inc. - CEO, President & Chairman*

Good afternoon and welcome to Grand Canyon Education's First Quarter Fiscal Year 2019 Conference Call. During the first quarter of 2019, enrollment in the programs at our partner universities for which we provide services increased 11.3% to 101,679. This increase includes 3,384 enrollments in programs serviced by Orbis Education as of March 31, 2019.

New working-adult students attending at our partners institutions grew in the low teens year-over-year. On a comparable basis, total enrollment grew 8.5% and new enrollments grew in the high single digits.

I want to begin by reviewing the full scope of services offered by Grand Canyon Education to Grand Canyon University during the first quarter, and eventually to additional partner institutions. It is the breadth of services that will be one of the defining characteristics of Grand Canyon Education in the OPM market place.

First, in the curriculum development area, 4 new programs were released to the university. These programs were Master of Social Work; Master of Arts in Higher Education Student Affairs; Bachelor of Science in Public Health and Education Specialist; Teaching and Learning. There were 3 emphasis areas released in the quarter. Those were Master of Public Administration with an emphasis on Non-Profit Management. Master of Science in Mathematics with an emphasis in Education, Master of Science in Mental Health and Wellness with an emphasis on Integrated Health. There are also 8 new graduate certificates of completion in the areas of: Communications; English; History; Mathematics; Sociology; Mental Health and Wellness, with an emphasis on Christian Ministry; Mental Health and Wellness, with an emphasis on Grief and Bereavement; and Healthcare Quality and Patient Safety.

Second, in the faculty services area there were 238 full-time and adjunct faculty recruited and trained. There were 202 sessions of faculty training and professional development offered.

Third, in the admissions area, a total of 23,009 transcripts were evaluated, which provides prospective students the information they need in order to make a decision to start a program.

Fourth, in financial aid, 157,334 files were touched.

Fifth, in the scheduling area, 20,128 classes were scheduled with an average class size of 14.3.

Sixth, our academic counselors performed 525,548 activities on behalf of students in the quarter, including activities such as welcome calls to new students, course reminder calls, GPA concerns, attendance, finance charges, missing documents, practicum or licensure follow-up, and schedules built or changed.

Seventh, in the technical support area, 52.64% of the calls were answered with no hold time, and if placed on hold, the average was 1 minute and 34 seconds.

Eighth, our advertising work was very efficient and provided the necessary coverage to exceed our partners' enrollment goals.

Ninth, we continued to enhance our technology platform during the first quarter. We are currently working on over 50 software projects. We continue to increase the use of our cloud computing platforms for GCU cybersecurity, IT, and engineering programs. We're completing an upgrade of our learning management platform, supporting all additional traditional and online GCU students.

As of today, over 95% of all students are using the updated platform. We continue to use our deep-analytics platform to improve student support. One of the areas we use this information is in automating the request for and collection of the various documents and other agreements related to different program requirements.

GCE has invested over $200 million in advanced technologies, resulting in automated services and artificial intelligence to support students, faculty and counselors over the last 10 years. I have just reviewed some of those. The objective going forward is to implement those capabilities over 6 core growth strategies. The goal is to work with partners to provide high-quality academic services that will produce quality outcome metrics to the University and career opportunities for students.

The metrics include, but are not limited to, high graduation rates, high pass rates on end-of-program tests where appropriate, low debt amounts, and low default rates on student loans.

First, GCE provides the marketing, recruiting and counseling services for GCU's traditional campus. I indicated in the fourth quarter call, University expected about 8,000 new students this fall, however, it looks like that number will be closer to 7,700. The 300 fewer new students are the result of not having enough beds to accommodate the demand. GCU built 3 new residence halls for the upcoming year, bringing the total number of residence halls on campus to 23, and every bed on its campus will be filled in the fall. There are actually 2 positive developments here: one, the number of returning students to campus is estimated to be up 300 over what we predicted, and returning students were given priority over new students in reserving a bed; two, the revenues on GCU's ground campuses are still anticipated to be what we initially predicted, even with the 300 fewer new students. The room and board revenue will be up because of the percent of all students living on GCU's campus will go from 59% to 63% on an increase of 7% in the student body. The additional positive news is that GCU, starting in 2020, will have the cash to continue to invest in the building out of its campus to over 30,000 students.

Second, GCU's online campus grew in the high single digits in the first quarter. GCE provided the marketing, recruitment and counseling services for this effort, and as we have said for a number of years, we expect the growth level to eventually be between 6% and 7%.

GCU continues to rollout new programs to support this effort and has plans to rollout 18 new programs, emphasis areas, and certificates during the remainder of this calendar year.

Third, GCE is in a strong position to support the rapid expansion of Orbis. Orbis currently has 17 partners under contract, 11 of those partners are currently enrolling students, with 3 more set to enroll students in 2019, and the other 3 in 2020. Orbis expects to sign between 3 and 5 additional partners by the end of 2019, bringing the total to between 20 and 22. We expect to open 5 to 7 new sites during the rest of 2019, bringing the total sites to between 23 and 25. This represents more than the necessary amount of activity to achieve a greater than 35% enrollment growth rate in programs serviced by Orbis education in 2020.

Fourth, Orbis will partner with GCU and its pre-licensure program to add locations in the Western region of the United States. GCU's pre-licensure program produced 91.5% first-time pass rates on the NCLEX exam in 2018, and a 98.2% pass rate in the quarter just completed. This was accomplished while also having the largest program in the state, which is important given the nursing shortage predicted over the next 5 years.

Fifth, we will continue to work with Orbis to expand additional healthcare programs to its partners. Eventually, programs such as the Nurse Practitioner Program, Occupational Therapy and Physical Therapy will be added.

Sixth, GCE will continue to work to gain additional university partners. We're currently working with 4 universities in the Midwest and Northeast and believe we will have something to announce before the end of the calendar year. We continue to focus on universities with geographic and programmatic differentiation. It continues to look like our expanded group of services will provide a point of differentiation in the marketplace of OPMs.

Now turning to the results of operations. As a reminder, beginning July 1, 2018, results of our operations do not include the university operations of GCU, but rather reflect the operations of GCE as a service technology provider. Therefore, for comparability purposes, we will discuss amounts on an adjusted basis as is discussed in the minutes.

Additionally, on January 22, 2019, GCE completed the acquisition of Orbis. Therefore, the results for the first quarter of 2019 include Orbis financial results from January 22, 2019, through March 31, 2019.

Service revenues were $197.3 million in the first quarter of 2019 compared to $275.7 million of university-related revenue in the prior year. As the GCE-GCU transaction occurred on January 1, 2018, comparable service fee revenue would have been $165.4 million in the first quarter of 2018. This represents an increase of 19.3% between first quarter of 2018 and first quarter of 2019 on a comparable basis. The increase year-over-year in comparable and as adjusted revenue was primarily due to our Orbis acquisition on January 22, 2019, and the increase in GCU enrollments between years.

The partnership agreements that were acquired as part of the Orbis acquisition generally generate a higher revenue per student than our partnership with GCU, as these agreements generally have higher revenue. The Orbis partners have higher tuition rates than GCU, and the majority of these students are studying in the accelerated Bachelor of Science in Nursing Program, so these students take, on average, more credits per semester.

End of period enrollment increased to 11.3% quarter-over-quarter to 101,679 from 91,378.

As adjusted operating income and as adjusted operating margin for the 3 months ended March 31, 2019, were $78.2 million and 39.6%, respectively. As adjusted operating income and as adjusted operating margin for the 3 months ended March 31, 2018, were $68 million and 41.4%, respectively. GCE will continue to reinvest profits, to create additional educational infrastructure for our partner institutions that will create more opportunity for students and families.

Technology and academic services grew from $10.7 million in the first quarter of 2018 to $19 million in the first quarter of 2019, an increase of $8.3 million or 78%. This increase was primarily attributable to the partner agreements acquired in the Orbis acquisition, which requires certain technology and academic services, including headcount, classroom facilities and equipment to be provided to each university partner. These costs along with the increased cost to service our existing client GCU's increased enrollment resulted in the increase. As a percent of comparable revenue, these costs increased 320 basis points to 9.7% from 6.5%, primarily due to the partner agreements acquired, requiring a higher level of technology and academic services than our partner agreement with GCU.

Counseling services and support expenses grew from $50.7 million in the first quarter of 2018 to $53.1 million in the first quarter of 2019, an increase of $2.3 million or 4.6%. This increase was primarily attributable to the partner agreements acquired in the acquisition, which require certain counseling services and support, principally headcount, to be provided to each university partner. These costs, along with increased costs to service our primary university partner, GCU's increased enrollment resulted in the increase. As a percentage of comparable revenue, these costs decreased 380 basis points to 26.9% from 30.7%, primarily due to the counseling services and support cost to service the acquired partner agreements being less as a percent of revenue than the cost of service GCU, and due to our ability to leverage our counseling services and support expenses across an increasing revenue base.

Marketing and communication expenses as a percent of comparable revenue increased 80 basis points from quarter 1 2018 to quarter 1 2019. This increase is primarily due to the advertising costs associated with marketing our new university partners programs.

General and administrative expenses increased $4.1 million between years, and as a percentage of comparable revenue increased 130 basis points to 5.8% in Q1 2019 from 4.5% in Q1 2018. This increase was primarily due to increases in professional fees, increases in employee compensation and benefit costs between years, and increases in occupancy and depreciation. Our increase in professional fees is primarily related to a payment made to an outside provider that assisted us in obtaining a state tax refund, with a favorable tax impact of $5.9 million in the first quarter of 2019. Our increases in employee compensation, occupancy and depreciation are primarily related to the acquisition, including additional headcount and office space in Indiana. With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on our 2019 first quarter, talk about changes in the income statement, balance sheet and other items as well as to provide guidance -- 2019 guidance.

Daniel E. Bachus - *Grand Canyon Education, Inc. - CFO*

Thanks, Brian. Including 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 3 months ended March 31, 2019. The non-GAAP amounts excludes the tax-affected amount of the amortization of intangible assets, and the loss on transaction balance included in our consolidated income statement. The amortizable intangible assets acquired in the Orbis acquisition totaled $210.3 million, and amortization expense in the first quarter of 2019 was $1.7 million. The loss on transaction of $4.1 million primarily represents advisory and legal fees associated with the Orbis acquisition. 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 3 months ended March 31, 2019, is $1.62. Service revenue exceeded our expectations in the first quarter of 2019 due to 3 factors: first, revenues generated through our partnership with GCU was higher-than-expected, primarily due to higher ancillary revenues during the period. GCU enrollments were generally in line with our expectations; second, enrollments in programs serviced by Orbis were slightly higher than our expectations, which resulted in higher revenues for the quarter; last, as we finalized the accounting for the Orbis acquisition, we realized an additional day of revenue, which represents approximately $1 million, would be recognized in the first quarter. We've reduced second quarter estimates by an equivalent amount.

Our effective tax rate for the first quarter of 2019 was 13.5% compared to 18.8% in the first quarter of 2018. The decrease in the effective tax rate resulted from an agreement with the Arizona Department of Revenue regarding previously filed refund claims related to income tax obligations for prior calendar years, which resulted in a favorable tax impact of $5.9 million recorded as a discrete tax item in the first quarter of 2019. Also, we continued to receive a benefit of excess tax benefits and recorded a favorable impact from excess tax benefits of $4.5 million in Q1 2019, compared to $5.3 million in Q1 2018. Our effective tax rate was lower-than-expected. First quarter guidance was 17.3%, primarily due to a higher-than-expected excess tax benefit. Thus, approximately $0.06 of the earning beat is due to the lower effective tax rate.

We repurchased 107,527 shares of our common stock in the first quarter of 2019 at a cost of approximately $10 million. We had $78.1 million available under our share repurchase authorization at March 31, 2019.

Turning to the balance sheet and cash flows, total unrestricted cash and short-term investments at March 31, 2019, were $102.7 million, restricted cash and cash equivalents were $300,000 as of March 31, 2019, and represents pledged collateral for newly acquired lease sites. GCE CapEx in the first quarter of 2019, including CapEx for new Orbis partner sites, was approximately $4.6 million or 2.3% of net revenue. We continue to believe that GCE's 2019 CapEx should range between $20 million and $25 million, consisting primarily of software development and the buildout of Orbis partner locations. We funded CapEx on behalf of GCU through the secured note of approximately $30 million in the first quarter of 2019 and still expect to fund approximately $100 million in 2019. This funding is in part to finish the 2018/'19 school year projects and 3 additional apartment style residence halls and a parking garage for the 2019-20 school year. Based on recent conversations with GCU, it continues to be likely that the industry will not request us to continue to fund its CapEx after this year as the university anticipates that it will be able to find its own CapEx moving forward.

On January 22, 2019, in conjunction with the closing of the Orbis acquisition, GCE entered into an amended and restated credit agreement and 2 related amendments that together provide a credit facility of $325 million comprised of a term loan facility of $243.8 million and a revolving credit facility of $81.3 million, both with a 5-year maturity date. The term facility is subject to quarterly amortization of principal, commencing with the first quarter ended June 30, 2019, in equal installments of 5% of the principal amount of the term facility per quarter. Both the term loan and revolver have monthly interest payments currently at 30-day LIBOR plus an applicable margin of 2%. The proceeds of the term loan, together with $6.3 million drawn under the revolver and cash on hand, were used to pay the purchase price in the acquisition. Concurrent with the acquisition and credit agreement, we repaid our $59.9 million in term debt and a cash collateral of $61.7 million was released.

Last, I would like to provide color on the guidance we have provided for the rest of 2019. The guidance that we have provided continues to be non-GAAP as adjusted net income and net income per share, as we exclude amortization of acquired intangible assets and loss on transaction. We've increased revenue guidance for the full year due to this first quarter beat, and have reduced second quarter revenue guidance by $1 million, as I explained earlier. We raised operating margin slightly for the second quarter given lower-than-initially-expected expense trends such that second quarter operating income remains the same as originally forecasted. Our guidance still assumes an effective tax rate excluding contributions made in lieu of state income taxes to be 24.5% in Q2, 24.6% in Q3, and 24.1% in Q4. The year-over-year increase in the effective tax rate, especially in the fourth quarter, is due to higher estimated state income tax as a result of the transaction, the one-time method change benefit received in the fourth quarter of 2018, and due to the contributions in lieu of state income taxes not being factored into our guidance. If a contribution in lieu of state income taxes is made in the third quarter of 2019, it will have the effect of increasing general and administrative expenses, and increasing income tax expense. Although we might repurchase additional shares during 2019, these estimates do not assume repurchases other than those made in the first quarter. I'll now turn the call over to the moderator so that we can answer questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Peter Appert of Piper Jaffray.

Peter Perry Appert - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

So I didn't have a chance to look at the Q, but are you breaking out the -- specifically, the revenues and the operating income of Orbis?

Daniel E. Bachus - *Grand Canyon Education, Inc. - CFO*

We don't, other than the pro forma disclosures that are required under the 10-Q or SEC rules. So there is some disclosure in terms of Orbis revenue in the 10-Q as well as some pro forma operating income information.

Peter Perry Appert - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Okay. That sounds really complicated, Dan, so maybe you can just give me the answer in terms of just current profitability of the Orbis business and expectations and how that trends.

Daniel E. Bachus - *Grand Canyon Education, Inc. - CFO*

No. Great question. So Orbis, as we talked about last quarter, our expectation was that Orbis would be net breakeven from an EBIT standpoint for the year, excluding the amortization of the intangible assets, and, obviously, the interest expense, which is at the GCE level. They did slightly better than that in -- or better than we expected in the first quarter, but our expectations for the rest of the year remain the same. And so we expect they will make a little bit of money this year from an EBIT standpoint, and revenue is generally in line with our expectations. It was a little bit higher than we expected, excluding this $1 million that moved from -- or the $1 million that we talked about in the first quarter, but so revenue, we are expecting to be generally in line with the guidance that we gave for the year for them.

Peter Perry Appert - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Got it. And then, Dan, does the profitability of Orbis take a step up or meaningful step up next year as the cohorts mature?

Daniel E. Bachus - *Grand Canyon Education, Inc. - CFO*

Yes. That -- the expectation is -- and until we finalize exactly how many rollouts of new sites will occur next year, it's -- it moves, but the expectation is, with all of the sites that will be opening in 2018 and 2019 moving towards full occupancy, it will be more profitable next year than it is this year.

Peter Perry Appert - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Got it. And then just thinking for Orbis for a sec. The partnership with Grand Canyon University, could you expand a little bit on that? And are you -- are you giving Canyon University an exclusivity on a geographic basis in certain markets? And just how big do you think that could be?

Brian E. Mueller - *Grand Canyon Education, Inc. - CEO, President & Chairman*

There is no exclusivity. We're just including GCU's program as another program that can be used to expand into new markets. And so there are markets in the West where it would be very logical for GCU's program to be the provider. We're not really talking specifically about which those -- which markets those are, but if will only make sense. We have a very large program and it's literally double or even triple the size of most nursing programs in the country. So our capabilities are significant, our influx results are significant, and so it would be logical to use GCU's program in certain markets. We just haven't identified specifically which ones they are yet.

Peter Perry Appert - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Okay. Thanks, Brian. And just one last thing. The start number, up high single digits, I think you said. I believe that compares with the low teens last quarter. So any comments, Brian, in terms of the relative performance this quarter versus last?

Brian E. Mueller - *Grand Canyon Education, Inc. - CEO, President & Chairman*

No. It's -- fourth quarter was strong. This quarter was strong, not quite as strong, but it's still good. Is it competitive out there? It's incredibly competitive out there. And so, we feel our saying that our long-term goal, with online enrollment through GCU, is 6% to 7% and we want to be able to hit that with high quality students. And so we feel good about what we did in the first quarter. It wasn't quite as good, but we feel good about what we did.

Daniel E. Bachus - *Grand Canyon Education, Inc. - CFO*

Important point is it was in line with our expectations of high single digits. One thing to make sure everyone remembers is that this business is very seasonal. The first and third quarters are much bigger start periods because of the traditional spring and fall starts. And so a high single-digit new start for the first quarter is, in my opinion, and probably Brian echoes this, is just as impressive as a low teens second or fourth quarter new start.

Peter Perry Appert - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Got it.

Brian E. Mueller - *Grand Canyon Education, Inc. - CEO, President & Chairman*

Yes, I guess, but if we're comparing over quarter-over-quarter or over same quarter so...

Operator

And our next question comes from the line of Jeff Silber of BMO Capital Markets.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Forgive me, I kind of cut out there earlier, but I think you said in terms of a potential new partners, update, would you be providing us more color by the end of the year? Is that what's the goal?

Brian E. Mueller - *Grand Canyon Education, Inc. - CEO, President & Chairman*

Yes. We're making progress with a number of potential partners, and I did make a conservative statement that we expect to have an announcement before the end of the calendar year. I expect it to be before then, but we are working with 4 potential partners pretty diligently in the Midwest and Northeast, and feel good that something good is going to happen before the end of year certainly, but probably sooner than that.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay, all right, that's great. And you did say it is a conservative estimate, and obviously there's a lot of moving parts and maybe things out of your control, but hopefully we get some information towards the end of the year or at least before the end of the year that would be great. If I can just shift back to Orbis. You've owned this business, I guess, a little about 3.5 months or so. What have you learned over that time period that you may not have known before?

Brian E. Mueller - *Grand Canyon Education, Inc. - CEO, President & Chairman*

We knew that when you get into this many partnerships and potential locations, there's always hiccups that you don't have quite as much control over when it's just a single entity, like when we were Grand Canyon University. So some kind of puts -- a start might have to be pushed back for a few months. And so there are those things that we're learning about. But we're also, on the other side of it, learning how big this marketplace is. We are going to conservatively need 1 million additional nurses in this country in just the next 5 years. And the current supply or inventory of the traditional universities isn't going to come close to meeting that need. And that's pretty universal throughout the country. That's not by geography. That's pretty universal throughout the country. And so we think Orbis has a tremendous model, and with our ability to support it with funding and with automated technology services, we're bullish on it. We think that this is going to be a very good business and one that it is going to fit. A really strong -- go ahead.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

No, I was going to let you finish. I apologize.

Brian E. Mueller - *Grand Canyon Education, Inc. - CEO, President & Chairman*

No, I was just saying it such a win-win deal. As you know, the universities need help, Orbis is willing to provide it. We're supporting Orbis and the students are really benefiting because they are moving into good-paying jobs, and the hospitals are elated. So it's a very positive business.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. That's great. And then just finally just shifting back to Grand Canyon University. I think you had mentioned that you hope to be informed by the University that they'll be able to fund themselves beginning in 2020. Roughly when will the University make that decision? And what does that depend on?

Daniel E. Bachus - *Grand Canyon Education, Inc. - CFO*

Yes. I think will happen in the second half of this year. And I think it's just come down to their comfort level and their growing cash balances and what their CapEx needs are for 2020. But the University is doing extremely well financially, and their cash balances are growing, and so what we've been told is, I think, they're getting more and more comfortable that they can fund their own CapEx next year.

Operator

And the next question is from the line of Jeff Meuler of Baird.

Nick James Nikitas - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

This is Nick Nikitas on for Jeff. Just first a clarification on the new enrollment, I may have misheard this, but, Brian, I thought you said something was up the low teens, is that not the working -- was that working students, not the online starts?

Brian E. Mueller - *Grand Canyon Education, Inc. - CEO, President & Chairman*

When you include the Orbis starts, it's up low teens. But then we took that out for a comparable -- a fair comparison was up single digits -- high single digits. But low teens if you include Orbis.

Nick James Nikitas - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

Got you. That's helpful. Just looking into Q2 and over I guess, the back half of the year, the comps are getting a little bit tougher, but have you seen any change in demand over the recent month, or pretty consistent with Q1?

Brian E. Mueller - *Grand Canyon Education, Inc. - CEO, President & Chairman*

Change in demand isn't there; the increase in competition is what is there. There's just more choices, and there continues to be more choices. So I think that's a very good question, because I think people are expecting because of the surging economy, and the fact that there are lots of jobs available that there would be, at some point, a decrease in the demand. I think we're a little bit fortunate in that we tend to have students in areas where in spite of jobs being available, they're looking to improve in their current positions. And so we haven't been impacted by it to this point, but it is something to watch very carefully, because I think there's a lot of people anticipating that.

Nick James Nikitas - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

Okay. And then just shifting to Orbis, giving everything going on there in what seems like a really nice runway, how are you guys thinking about the timing of the potential OPM announcement? I mean, Brian, you said you still expect something by the end of the year, but is there any thought that with the potential with Orbis, especially leveraging GCE's brand throughout the West Coast, that may be that allows you to push back your time line at all and focus on Orbis more? Or how are you guys thinking about that?

Brian E. Mueller - *Grand Canyon Education, Inc. - CEO, President & Chairman*

No. We certainly have our hands full with Orbis and we really, really love that business and things are going well, and it's really well run. But that's not negatively impacting the time we spend on the other thing. We just -- we're looking for -- as we have been telling you, we're looking for the right programmatic differentiation, the rate geographic differentiation, we're looking for high-quality partners, mainly in the Midwest and the Northeast, but I think the exciting thing about what we have the potential to do is, number one, our services will be far greater in terms of the extent of the services. But then there's all kinds of exciting things that we're going to be able to do with potential partners that will -- it will be truly more of a partnership than a client relationship. And I don't want to talk more about that now, but when we make some announcements, I think, you'll understand what I'm talking about.

Nick James Nikitas - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

Okay. Great. And then just one last one. On the CapEx, if we're thinking post 2019, is this kind of $20 million to $25 million a good run rate assuming GCU handles that then internally on their books? Or will that continue to grow with Orbis launching new partnerships?

Daniel E. Bachus - *Grand Canyon Education, Inc. - CFO*

It's highly dependent on how many new locations that are rolled out in the year, but I think somewhere probably $20 million to $30 million is probably a good estimate.

We have reached the end of our first 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

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.
