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Grand Canyon Education, Inc. (LOPE)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the First Quarter 2022 Grand Canyon, Inc. Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Mr. Dan Bachus, Chief Financial Officer.

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 first quarter 2022 conference call. 2021 was a difficult year in higher education. Grand Canyon Education came through the year amazingly well as compared to the rest of higher ed.

Most important, the overall trends predicted for 2022 and the sector continued downward while Grand Canyon Education will resume its consistent upward trend for 14 years and is positioned to do very well the next 10 years.

COVID had a negative short-term impact on all three of our pillars. However, long term, the negative impacts on the rest of the sector have turned into positives for GCE because of how it is positioned itself, especially the last three years. I will explain as I talk about each pillar individually.

First, the GCU traditional campus. Both the number of high school graduates per year and the percentage of them going to college has declined in recent years, and that has resulted in lower enrollments at many universities and community colleges. It has also caused some universities to lower their admissions requirements in order to boost their enrollments.

In the fall of 2021, GSU's traditional campus actually saw an increase of 6.2% in new students over the prior year, an increase of 9.5% in total enrollment and an increase of 25.8% in residential enrollment. Approximately 70.3% of GCU's ground traditional students now live on its residential campus.

The momentum continued as spring new enrollments were up 39.6% over the prior year. The average incoming GPA of this year's class rose to 3.6 and the prestigious Honors College grew 8.4% to almost 2,800 students, with average incoming GPAs of 4.1.

These are remarkable results given the overall trends. The quality, especially the relevancy of GCU's academic programs, the low class sizes and support of its faculty who have less than a 5% turnover rate, the quality of counseling services, a new, very modern campus that is ranked 18th in the country by niche.com, the 20 advisory boards with over 500 companies represented who are creating internships and employment opportunities for GCU students, and Phoenix as a destination city are all contributing factors. Having a very successful year compared to the majority of the sector, we still, however, have not reached our full potential in pillar 1 for the following reasons.

Number one, GCU continues to gain visibility across the country. However, its extremely significant value proposition is still relatively unknown. GCU relies heavily on a process called Discover GCU. We fly in thousands of students for a one or two day campus visit and house them at a residence hall designed for that purpose.

In the 2020 school year, because of COVID, we were down 46% from our campus visit goal, yet still produce good results. This year, as the country is reopening, campus visits have already more than doubled over the prior year.

Number two, I didn't list this previously in GCU's list of advantages because I wanted to call it out separately due to how important it is. According to research produced by Jon Marcus in The Hechinger Report, college costs outpaced inflation by 28% at public institutions and 19% at private non-profit ones in the decade preceding the pandemic, according to the National Center for Education Statistics.

But those relentless higher-than-inflation tuition hikes came to a halt in the fall when the College Board reported that tuition rose at less than the Consumer Price Index. However, he finishes the report by listing all the universities who have already announced tuition, room, board and fee increases due to inflationary pressures for next year.

In contrast, GCU has already announced that, for the 15th straight year, there will be no tuition increase. This has resulted in GCU's students taking out less debt than the highly subsidized state universities and GCU's parent plus loan amounts being 50% of the three Arizona state universities.

Number three, the City of Phoenix and the State of Arizona's economic outlook is very bright. Hundreds of companies are moving here, especially from California, and we estimate right now that approximately 80% of GCU's traditional graduates stay in Arizona post-graduation, partly because the career opportunities are so significant.

Number four, a growing segment of university enrollments in the country are first generation college students. Of the approximately 9,000 new students at GCU this past year, approximately 3,600 were first generation students. The first gen college students this year had an average incoming GPA of 3.55, almost identical to the 3.6 of the overall class. This year, we expect 4,000 of GCU's 10,000 new students to be first generation. The 7,600 first gen students at GCU in two years alone is a transformative number and a great reason to invest in GCE and donate to GCU.

The quality and relevance of our programs, the quality of GCU's campus facilities, the intense amount of faculty and counseling support, the number of campus jobs available to students, the percentage of students graduating in three years, and especially the low price points, all contribute to the success.

Number five, GCU is able and prepared to financially build this campus out to 50,000 students, creating opportunity for GCE in this pillar for the next 10 years. We are targeting over 10,000 new students in 2022 and are making investments now to significantly increase that number in 2023.

Next, I would like to discuss GCE's second pillar, its healthcare partnerships. Short term, COVID has had a negative impact. Hospitals were extremely busy and preoccupied with COVID patients and many clinical placement opportunities were cancelled.

In spite of these very significant challenges, many instructional assignments requiring one-on-one clinical interaction in the hospital were replaced by simulations. Some of our university partners requested that we reduce the cohort sizes for 2022 due to concerns about the lack of clinical capacity. And some of the new sites that we hoped to open, especially in large markets, have been pushed back to 2023.

But against this backdrop, both the projected new and total enrollment numbers were met for the first quarter of 2022. As with GCU's traditional campus, the long term environment is very positive for these GCE healthcare partnerships for the following reasons.

Number one, the country needs 1.3 million additional nurses the next five years alone. Nursing programs are very expensive to operate. And given the financial pressures facing many universities, they will be unable to invest the dollars it will take to scale the programs.

Number two, GCE has the capital to invest and the continued build out to eventually 80 locations. Number three, in addition to the runway of 80 locations, up from 30 locations currently, our enrollment budget for this coming year is only 50% of the actual spots that exist even today. The 50% shortfall is due to the lack of efficient and highly-sought prerequisite course environments, which I will speak directly to later, regulatory issues creating slowdowns in opening plan locations and the lack of clinical placements due to the COVID issues. GCE is working hard in investing in new enrollment, simulations, virtual reality and prerequisite strategies to, in the future, fill all the spots that are available.

This is a transitional year coming out of COVID for the healthcare partnerships. However, there is a 10-year runway that is very promising and creates a winning scenario for students that want into a promising career, healthcare providers desperately needing professional nurses and universities who want a low risk way to help solve the nursing shortage, while at the same time creating additional revenue streams. As all this is taking place, we will be adding healthcare and non-healthcare programs to some of the existing and future locations.

Pillar 3. Working adult online students. When COVID first hit, there was an initial surge of working adult students returning to college as online students were re-entering if they were temporarily out. GCE online benefiting from that surge. As the pandemic progressed, some potential students began questioning the ultimate value in investing in higher education. There was also talk of free community college and state university education by the new administration.

In addition, many adult students that pursued high volume programs, like the RN to BSN program were busy at work taking care of COVID patients or uncertain about the future and putting off starting school.

2021 definitely saw a downturn in working adults attending universities online, and we experienced that as well. However, as this market has become increasingly crowded in the last five years, we've invested in B2B strategies that are well timed for this COVID period.

The supply and demand for educated labor has flipped. We are working on a daily basis with over 21,600 industry partners in K-12 education, health care, financial services, social service agencies, technology and engineering companies, military bases, et cetera, developing strategies that will help them grow their talent from inside.

The number of information meetings scheduled and the attendance at those meetings now exceed where we were prior to the pandemic. However, we are running behind the number of counselors we have budgeted, given the difficulties currently faced in the labor market. We expect to make gains in that area in the next six months. As a result, we believe we are getting back on track and will see positive enrollment growth by the end of the calendar year.

We are also building out state-specific programs in certain licensure areas and creating free test prep options that can help employees gain licensure and progress in their organizations. This is all very innovative and hard work that most universities and OPMs are not capable of providing. This requires investment during 2022 but will set us up to get back to positive growth towards the end of the year and then sustain it for years to come.

Both COVID and other market forces put some strain on the 2021 results following 14 years of incredibly consistent upward performance. That said, we still outperformed both the higher ed and OPM sectors at large.

In a post-COVID era, we are set up for another impressive run because, in all three pillars, we are tied very tightly to where the economy is going, where the huge talent deficits are, and can provide relevant, efficient and cost effective path for students across the lifespan to get there.

Our first quarter new and total enrollments were in line with our expectations. New enrollments were down slightly year-over-year, which is a significant improvement from the past few quarters, and March enrollments were actually up year-over-year.

The activity of our B2B counselors continues to improve and we are optimistic that this trend will continue, although it is too early to predict if new starts will return to year-over-year growth in the second quarter. But as I said earlier, we are still hopeful that we will see positive growth by the end of the year in this pillar.

Last, as you will recall on the last quarter, I mentioned that we were working on a new pillar. We are extremely excited because it is desperately needed in higher ed today. In collaboration with our largest partner, GCU, we are developing accelerated certificate programs and the first three will roll out in the next couple of months. Two of the certificate programs are for students, who want an efficient way to get into nursing school. We believe there is a big opportunity here.

Getting prepared academically to apply to nursing school can be a daunting and confusing process. The first, a pre-nursing certificate program will allow recent high school graduates to stay home and take the first 60 credits of their bachelor's degree completely online. GCU has worked with GCE to design state-of-the-art science courses that will prepare students to apply for a spot in eventually one of GCE's 80 locations. These courses will be taught mainly by full time faculty with a tremendous amount of academic support for the students.

The second certificate program is designed for students who have completed a college degree in another academic area or have a partially completed degree. The students will take mainly the science courses necessary to apply to one of our partners in one of our 80 locations. The first certificate will have a synchronous component, while the second certificate will be taught completely asynchronously.

Given that eventually GCE will have approximately 24,000 ABSN slots through our partners across 80 locations, we will need more than 24,000 students in certificate programs preparing for those opportunities.

The third certificate program, which will begin in September, comes out of GCU's newly formed Institute for Workforce Development. This certificate will prepare students for a professional electricians apprenticeship program. This is a 16 credit, one semester program, heavily focused on the mathematical concepts necessary to prepare for a career as an electrician. This program has been designed with a major industry partner who will offer apprenticeships to the students successfully completing this program. This partner needs 1,000 electricians for their business in Arizona alone. This partner also indicates that the country is short a minimum of 100,000 electricians necessary to complete the building projects currently underway.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on our 2022 first quarter, talk about changes in the income statement, balance sheet and other items, as well as to discuss the updated 2022 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 March 31, 2022 and 2021. The non-GAAP amounts exclude the tax affected amount of amortization of intangible assets of $2.1 million in the first quarters of both 2022 and 2021 and the loss on fixed asset disposals of $0.6 million in the first quarter of 2022, primarily related to the write-down of our former learning management system.

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 both of the three months ended March 31, 2022 and 2021 is $1.72.

Service revenue exceeded our expectations in the first quarter of 2022, primarily due to higher-than-expected GCU room and board and ancillary revenues and slightly higher-than-expected spring semester hybrid revenues.

Enrollments for all three student types were in line with 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 students as compared to the prior-year period and the growth in the enrollment for hybrid students.

Service revenue per student for hybrid students generates a significantly higher revenue per student than we earn on the other students, as these agreements generally provide us with a higher revenue share percentage and 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.

Our operating margin, excluding the fixed asset disposals, was in line with our expectations. As I discussed on last quarter's earnings call, we have restarted hiring, in which head count has mostly been flat since March 2020 for our expected future growth, which is driving increased compensation costs in technology and academic services and counseling services and support costs. We plan for a significant increase year-over-year in travel and employee benefits as those amounts were significantly lower than pre-COVID levels in the prior year. We also plan for increased clinical costs at off-campus classroom and laboratory sites due to the nursing shortage.

And the year-over-year difference in the timing of new site openings – all new sites in 2021 were opened in the first half of the year, whereas nearly all new sites opened in 2022 – will be in the second half, is having a negative impact on both revenue and expense.

Generally, expenses were in line with our expectations, although travel and benefit costs were higher than we expected in the first quarter of 2022 and head count was below our expectations. Included in both our 8-K and the 10-Q filed today is a detailed explanation of the actual and anticipated impact of COVID-19 on all our university partners.

Our effective tax rate for the first quarter of 2022 was 25.2% compared to 20.4% in the first quarter of 2021 and our guidance of 25.3%. In the first quarter of 2021, the effective tax rate was significantly impacted by excess tax benefits of $4.4 million as a result of exercises of the remaining stock options held by employees prior to their expiration. Excess tax benefits totaled only $0.1 million in the first quarter of 2022. In the first quarter of 2022, our first quarter tax rate was unfavorably impacted by an increase in the state income tax rate.

We repurchased 4,575,048 shares of our common stock in the first quarter of 2022 at a cost of approximately $394.9 million and another 1,006,964 shares at a cost of $99.8 million subsequent to March 31, 2022. We have $100.7 million remaining available as of today under the previously approved share repurchase plan. We estimate that we will spend at least $52 million on share repurchases over the rest of 2022.

Turning to the balance sheet and cash flows. Total unrestricted cash and short-term investments at March 31, 2022 were $264.3 million. GCE CapEx in the first quarter of 2022, including CapEx for new off-campus classroom and laboratory sites, was approximately $6.8 million or 2.8% of service revenue. We continue to expect CapEx for 2022 will be between $30 million and $35 million.

Next, I would like to provide color on the updated guidance we have provided in our 8-K filed today. The guidance that we are providing continues to be non-GAAP as adjusted net income and as adjusted diluted income per share as we have excluded amortization of acquired intangible assets and the fixed asset disposals.

Last quarter, we provided ranges for revenue, operating margin and earnings per share for each of the four quarters in 2022. We do this because our financial results are seasonal. We have raised the revenue and operating margin guidance for the year – for our revenue and operating income beat in the first quarter, but have not adjusted the guidance for the remainder of the year as the majority of the beat in the first quarter was related to higher revenue generated at GCU's traditional campus in the spring semester that ended in mid-April.

The summer and fall GCU ground enrollments continue to trend such that they should meet or exceed expectations. As you recall, the difference between the high end and low end of our range – ranges was primarily due to differing enrollment assumptions for GCU online and hybrid enrollments.

Hybrid enrollment was in line with our expectations in the spring semester and demand is strong, but the clinical capacity issues at both new and existing sites as a result of the nursing shortages and the prerequisite challenges Brian discussed earlier will continue to pressure our cohort sizes for the foreseeable future. The high end of our revenue guidance also assume GCU online would return to new enrollment growth in the second quarter of 2022 whereas the low end assumes new starts would be down in the mid-single digits in the quarter.

As Brian mentioned earlier, the B2B reps activity continues to improve, which gives us confidence that new and online enrollments will return to year-over-year growth. However, to consistently grow new enrollments, our head count needs continue to grow at a certain level. And although we are adding head count, we are not where we planned to be due to the labor situation. Thus, based on these factors, it is likely that we will be at or near the midpoint of our range in the second quarter.

We have adjusted the effective tax rate for the last three quarters of 2022 slightly to 24.9%, 24.9% and 24.5%. The effective tax rate continues to be higher in 2022 than in 2021 as revenues continue to grow at the off-campus classroom and laboratory sites outside of Arizona and the majority of these states have higher state income tax rates than Arizona.

These estimates also do not assume the contribution of real estate 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.

We have increased our weighted average share count for the last three quarters. The board remains committed to purchasing the same dollar amount of stock as previously discussed, but given the increase in the stock price, the number of shares that we repurchase will most likely be less.

As was discussed last quarter, the primary reason the board has been so aggressive in its stock buyback activity is that it believes the stock was considerably undervalued. Even with the increase in stock price, the board still is of that opinion. A couple of the key metrics the board looks at to make this determination is the ratio of enterprise value to adjusted EBIDTA and the free cash flow yield rather than the multiples of other education companies as, although we can be viewed as being in the same sector, there are few, if any, appropriate comps.

On an enterprise value to adjusted EBITDA basis, the stock is currently trading at roughly 9.8%, which is significantly less than the recent S&P average of 16.5%. The average free cash flow yield for the S&P 500 remains below 2%, whereas the company's free cash flow yield is approximately 8.4%.

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

QUESTION AND ANSWER SECTION

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

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Thanks so much for taking my question. I just wanted to clarify one of the statements, I think, Brian, you made in your opening remarks. I think you were talking about enrollments at Grand Canyon online looking for growth by year-end. Are you talking about new enrollments, total enrollments? If you can just clarify that, that'll be great.

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

A

New enrollments. If we get new enrollment growth towards the end of the year, 3 or 4 percentage points over prior year, that will be the thing that will obviously accelerate and eventually result in total enrollment growth.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. That's helpful. Some of the others...

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

A

Hey, hey. Jeff?

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Sorry, please go ahead.

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

A

Jeff, just to clarify from a guidance perspective, again, our guidance assumes that total enrollment – the high end of the guidance assumes that total enrollment will grow in each of the second, third and fourth quarter. The bottom end of the range assumes that we'll still be down mid-single digits second, third and fourth quarter. We're hopeful that we'll be able to grow new enrollments before the end of the year, but to be conservative, given the head count things and the other things we're talking about, I think that's where Brian's commentary is at, the conservative assumption.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. I appreciate the explanation on that, Dan. Moving on with a different topic, there have been some others in this space that have talked about students being maybe less rigorous in terms of their coursework, given the job markets, maybe taking fewer classes or not enrolling enough. Is that something you're seeing at any of your institutions?

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

A

Well, at our ground campus at GCU, absolutely not. The trend is actually the opposite. Students are coming in, number one, enrolling in what are very rigorous academic programs. 65-plus percent of our students are in STEM areas. So, the natural sciences, engineering, computer science, information technology. Those areas are really growing. So, students are choosing rigorous academic areas.

And secondly, they're very intent on graduating in three years or three-and-a-half years. And so, they're taking full loads and some even stay in the summer because our partner – we have 8,000 high school partnerships, and so many of our students are coming with – GCU students are coming with 20, 30 college credits already earned that they can actually double major and do other kinds of things and graduate in three years and many will stay to do a master's degree program. So, we're not seeing that.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

In online, are you seeing that at all?

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

A

No. I think the reason we're not is because, if you look at the major players online, one thing – the one way that we're really different is that we've got a lot more programs and our students tend to come – and 50% of our students are studying at the graduate level. So, they're not people that are just coming to complete a degree just to say they've completed a degree. They really have more specific objectives that they're trying to achieve, and so our retention numbers are strong and we're not seeing any reduction in revenue per student on an annual basis as a result of them taking fewer classes.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. That's great. If I could just sneak in one more, really intrigued about the accelerated certificate program that you're talking about. I know it's still kind of in the launch phase. But can you talk about maybe the economics of that, how it compares to some of the other programs you have?

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

A

Yeah. I am excited about it too, and I'm trying to downplay it because we've got to prove it, obviously. But the more you get into this nursing thing, the more you get frustrated by it, but you also see the opportunity. It's really a crazy situation. We need 1.3 million additional nurses and there are unbelievable numbers of people out there that want to be a nurse and yet we have this shortage. And so, there are bottlenecks in this thing that are incredibly frustrating.

We've talked a lot about the clinical placements and what we're doing to replace some clinical placements with simulations and other instructional activities, and we're also rectifying that to some extent by having 80 locations, so we're not having to double the amount of clinical placements in any single marketplace. We just need a few more in 80 marketplaces and we could produce a lot more nurses.

But then the other bottleneck that is very – became very clear to me is the one about preparing in the first two years. It's a crazy thing. Thousands of kids attend universities all over the country hoping to be a nurse and literally thousands pile into universities and then 5% or 10% of them get a shot at becoming – getting into the nursing college as a junior.

And the specific requirements to get in as a junior – they're not the same requirements. They change based upon the luck of the draw in terms of the strength of the applicants that particular year. And so, it's really an exasperating experience for students and families.

What we want to do is really give students the chance at a very high-end way to prepare in those three nursing years for a nursing college. There are students that are in high school that have very good grades, but can't afford to live on a college campus for four years, especially given the uncertainty of can-I-get-in-as-a-junior. And so, we want to give them the opportunity to stay home and study online in a very rigorous academic setting. We're really good at teaching science at GCU on our campus, and we're going to be – I think the goal is to be the best in the world at doing it online.

And so, there'll be an opportunity for people to get involved in that curriculum, perform at a very high level, keep their costs to a minimum and then have lots of potential places to go as they near the first two – end of the first two years. So, that's one group.

The other group is, if you've completed an academic degree in another field or you're partially completed, you have 60 college credits, for example. Then you're going to go into a second certificate program or can go into a second certificate program. It's just based on mainly science courses. And that will be a little bit different than the full time online students, who will have a synchronous component.

This other one will be completely asynchronous, but there'll be tons of student support. But the idea is to get people into the courses within a month of them looking into it, not having to wait two semesters or three semesters or whenever the local community college might be happening to offer those courses, but be able to get into it almost immediately, be able to finish the six or seven or eight courses they need in order to apply to a nursing school and then have a lot of different potential landing points when they performed very successfully in the classroom.

The model has a lot of promise. The one downside to it is that we have 31 locations currently. Eventually, we'll have 80. But some students will have to move once they finish their work online in order to get into a 14 to 16-month accelerated program. But we've already proven that students are willing to do it, and so we'll work with them hard as they move through the prereq courses in order to determine what would be the best landing spot for them, given their individual circumstances.

But I think when you think about eventually 80 locations with an average of 380 BSN students per location, that's 24,000 slots, which means we have the opportunity to teach at the same price per credit students for basically a year, and so the financial result of that for GCE is going to look very similar to, for example, putting a student into an RN to BSN program. And so, when you think of the thousands of students that could benefit from this, it's a significant potential player for GCE with the financial results to be very similar to a lot of our [indiscernible] (0:32:17) students.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. Thanks so much for the color.

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

A

Yep.

Operator: Your next question is from Jeff Meuler from Baird. Your line is open.

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

Q

Just if you could continue on with it for me. So, what are you telling the students, like what's the transferability of credit to the Orbis partner network? And since you're talking about the concern of going through a couple of years of undergrad and then not getting into a nursing degree, what are you planning on telling the candidates for the certificate nursing program?

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

A

Well, the courses that we've developed have been approved by our partners. Now, every partner has a different set of course. There's a slightly different set of courses that are necessary to get into their program. And so, the students have to take the courses in the GCU prereq program that are required for those potential partners that they're targeting.

We obviously can't guarantee entry. There are no guarantees of entry anywhere in the country today, but what we can tell them is that, currently, we have double the number of slot available than we're currently filling. And we're going to add 8 to 10 locations – I should say 4 to 8 location on an annual basis. And so, the number that we're at currently, we're only 50% filling and the – those slots are going to keep growing. And so, obviously, you can't guarantee anybody anything, but we're going to get a lot closer to that than they are guaranteed anything today and in a lot more efficient, we believe, cost effective manner. So, does that help?

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

Q

It does. And then, for GCU online new enrollment trends, is it basically that the digital channel trends are stable and the overall improvement is coming from the normalization of the partner channel and then to drive the growth once it normalizes, that's where you need the head count growth. Is that accurate?

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

A

Yes. Yes. We really have normalized in terms of the advertising campaign and the inside counselors. We just don't want to grow that significantly because we think the big opportunity to work with companies directly, to provide their employees the chance to move up within their organizations, which is a big emphasis, is a better way to do this long term. And that's the place that we're behind. And it's geographic. We're behind in those areas of the country where it's toughest to find people given the cost of living. California, New York, places like that. We're up to speed in places like Tennessee. But in those other places where the cost of living is really high is where we're a little behind.

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

Q

Sure. And then, on Orbis, so I get that you're saying that the new internal enrollment was in line with your expectations. It was lower than I would have guessed, and it decelerated to a pretty low level. So, help us out with the leading indicators for that business in terms of either, like, student level, lead gen or where you are with working through the process for regulatory approvals for new sites or resolving some of the clinical capacity constraints either in the more traditional way or with some of the alternatives that you've been coming up with, just so we can kind of monitor when that business should turn?

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

A

Yeah. So, the total enrollment number, and this is why we sometimes don't love giving out enrollment, even though I know it's something important, but I think it's very misleading in terms of how that business is really growing.

Number one, you've got the huge headwind of the occupational therapy, which is down roughly 30% year-over-year because they weren't allowed – we weren't allowed to recruit any new students into that program for a very long time. So, the graduations are – we're now recruiting students, but the graduations still continue to outpace the new enrollment allowed into that program. So, that's hurting the overall enrollment.

On the pre-licensure nursing as a – just looking at pre-licensure nursing, it's misleading for two reasons. One, we really don't have any new locations that – we opened one new location between the spring of last year and the spring of this year. We opened a location in Dallas in the spring of this year, but there was nothing opened in the summer or fall of last year. So, you don't have any growth coming from new locations. And there are some existing locations that have been at capacity for a number of years that have – as we've talked about before, have taken a step back in their total enrollment because of the clinical challenges and prereq challenges, et cetera.

And so, all you have from really a growth rate standpoint is those locations that have opened in the last few years that weren't at capacity that continue to grow. And so, it looks like that business is not really growing again. I think that's very misleading. We're very excited about getting a number of locations opened here in the second half of the year. Las Vegas will open, Salt Lake City will open. We're optimistic about a couple of MLS sites opening. There is an outside chance that some of those other locations like Seattle that might open, but those could be in 2023.

So, the pipeline is really good for new locations and new partners. And it's – to get back to the 20% growth rate that we want for that business, we have to get those existing mature campuses back to the full capacity, which is where they've been up until the last six months.

Brian, anything to add to that?

Brian E. Mueller

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

A

Only that the – just to reiterate what we've already been talking about, which is, the bigger that Orbis got, the more it became clear that there were two major hurdles. One was the clinical placements, but the other one was this prereq thing. The counselors were very frustrated when they had somebody that really wanted to be a nurse, but they needed 30 or 40 additional credits and they would say, go to a community college. Well, there might not even be the courses you need that are available for two semesters. You're talking about a year to two years before you have a chance to do anything. That bottleneck has to be fixed for us to reach full capacity and I think we have a plan that can bring a drastic change to that, improvement to that. That's what we're hoping.

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

Q

Got it. Thank you.

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

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 very much.

Operator: Ladies and gentlemen, this does conclude today's conference. Thank you for participating. You may now disconnect.