06-Nov-2019

Grand Canyon Education, Inc. (LOPE)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Q3 2019 Grand Canyon Education Earnings Conference Call. At this time, all participant lines are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Dan Bachus, CFO. Thank you. Please go ahead, sir.

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

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

Thank you. In today's conference call, I want to spend some time discussing the future of higher education and how GCE is positioned to be a significant long-term contributor. Much has been written about higher education but in our opinion not enough of it is in the context of the challenges facing students, families, communities and the economy. The challenges have been building for decades. Since 1990, the cost of living has gone up in this country 95% while the cost of higher education has gone up 393%. This has happened in the midst of a rapidly changing economy requiring knowledge and skill sets that are significantly different than those required in post-World War 2 America.

Except for cost, many things have not changed inside the academy. The challenges are not hard to identify. One, college costs way too much. Whether students cover the cost directly to private universities, or cover some of the costs to community colleges or state universities and taxpayers are paying the difference. Two, students are taking on way too much debt. Three, as tuition goes up, typically the diversity of student bodies go down. Four, bachelor's programs take four to six years in too many instances adding to the total cost. We believe many programs should be completed in three years. Five, many times programs are not tied directly enough to where the jobs are. And six, there are not enough counseling and support services backed by technology and artificial intelligence to assist especially first-generation college students.

In the past and still to this day, U.S. News & World Report rankings measured things like: number of applications rejected; subjective peer evaluations in dollars raised through development offices; brands were built partially on rankings derived from those criteria, none of which relates directly to the relevance of programs, the quality of the curriculum and instruction and the excellence of the support services offered. We believe the future will be more about the value and return on investment that students, families communities, and the economy experiences.

Grand Canyon Education has four pillars that it is supporting and each one addresses the challenges that have been identified. First, Grand Canyon University online. This partner institution has 84,081 online students as of September 30, 2019 and in the quarter just completed, new students grew in the mid-single-digits and total students grew 7% year-over-year. The average tuition per student for GCU students is $9,100 which is way below that is paid typically at private universities and equivalent in many cases, to what is charged at heavily taxed subsidized state universities.

Historically, GCU Online has been profitable and currently both GCU online and GCE are profitable. This allowed us to invest $200 million in academic and operational infrastructure to serve students on an extremely robust online platform. The fact that GCE continues to be profitable allows it to continue to invest. For example, GCU just released 41 new academic programs that GCE will help implement for students in the next six months.

GCE is building on the state of the art learning management system that GCU built in 2011 by building a new even more robust system that will be released in approximately 10 months. GCE's profitability and continued investment has been accomplished with modest less than 1% tuition increases by GCU online.

In addition, GCE continues to invest in operational components of its best in class administrative system that affords students unprecedented levels of transparency. Every student that starts a program knows the full cost of the entire program before they begin. Most universities will give them at most the cost of the first year. Not only will GCU give cost for the entire program but will also break down loan packages and repayment amounts based on the amount the student chooses to borrow.

The level of transparency around credits transferred, courses that need to be taken, tuition level and all other costs does not exist at most universities. GCE continues to invest in counseling services and support technology, so students remain completely up to speed on their progress. These investments have produced high quality metrics at GCU. Good graduation rate led to over 25,000 graduates last year, most in high demand areas. GCU has slightly over 5% cohort default rates, when the national average is greater than 10%. GCU's 90/10 calculation, that is 73% and continues to drop. None of GCU's online programs failed the gainful employment calculations. Many private and state universities especially if you include tax subsidies that go to a state institutions would not pass. GCU students take out less debt than the average private and state university students according to The Institute for College Access & Success.

The second pillar is the GCU traditional campus. While most traditional university campuses showed declining enrollment trends, GCU's traditional campus enrollments have exploded. From 900 students 10 years ago, GCUs started this semester with nearly 21,000 students. GCU's traditional campus is profitable and it has invested over $1.5 billion in academic and other campus infrastructure. GCU will invest more than $500 million additional dollars in the next five years to continue the growth.

Without an efficient operational model this would not be possible. GCU has accomplished this without raising tuition on its traditional campus in 11 years. The campus has been ranked as high as 7 in the country by niche.com.

The quality of the student body continues to grow with this year's class having incoming GPAs exceeding 3.5 with the dynamic Honors College growing to 2,300 students with average incoming GPAs exceeding 4.1. Over 50% of students are studying in a rigorous STEM areas and over 40% of graduates are completing in three years. And due to the fact that the average residential student pays $8,100 for tuition and $8,200 in room and board on an annual basis, the percentage of students living on GCU's campus continues to grow. Residential students grew 9.3% year-over-year. GCE will continue to support GCU's traditional campus operationally as it grows to over 30,000 students.

The third pillar of the GCE strategy is Orbis. Orbis fits in the GCE strategic plan because it originated as the result of a huge marketplace need and is using a very innovative delivery model. Orbis, like GCU online and GCU ground will be profitable. The profits will be reinvested into Orbis to create more opportunities, both in terms of locations and adding programs to current locations. Self-sustaining economic models that don't rely on taxpayer subsidies or philanthropic donations are a huge benefit to the economy and to state budgets. Since we bought Orbis, 4 partners have been added and as of this fall, we are up to 23 locations. The goal is at least 30 locations by the end of 2020.

The creative delivery model which combines on-ground laboratory work with online delivery of course content is producing tremendous outcomes for students, the healthcare community and university partners. GCE will continue to support Orbis with capital, marketing and operations support including advanced technologies.

In terms of metrics, graduation rates are approximately 90% and first-time pass rates on the NCLEX exam are consistently over 90%. GCU's nursing program the last two quarters produced over 98% first-time pass rates, Orbis revenues have grown 50.7% on a year-over-year basis in the three months ended September 30, 2019, while enrollments on a comparable basis have grown 28.1% year-over-year.

GCE's fourth pillar is a set of three or four partners with a more comprehensive arrangement. We are working hard at this pillar but will continue to be selective. The model of many partners, many low enrolled programs at very high price point is not interesting to us. We believe we can add tremendous value to university partners in the Midwest or Northeast, and are in dialogue with a number of them. Most of them have had partners in the past and they have not been successful scaling those programs.

Our strategy of front-end services combined with robust back-end services is a clearly differentiated approach. The models we are suggesting is proven on a very large scale. GCU's hybrid campus, having large student bodies in both markets has been successful in unprecedented ways. High quality students producing great outcomes at great value, combined with making huge investments to constantly upgrade infrastructure is a matter of fact, not opinion. Everybody that visits the GCU campus goes away very impressed. Faculty from other institutions who haven't visited and seen first-hand what this model has been able to produce, are a challenge for us. Future models of higher education should be based on the results they produce and not whether they fit into pre-existing structures.

Our other three core pillars are performing well, have great potential and as a result, we have the ability to be selective. We will find the right comprehensive partners who are interested in pursuing a model which produces better value for students. We have turned away potential partners in the last six months and may have to walk away from more. We are not going to make a deal with an administration if faculty are not fully on board. On the other hand, if we find the right partners, this model has produced transformative results that are factual and not opinion or wishful thinking.

Grand Canyon Education is also looking for partners that pay more than superficial lip service about making real transformative contributions to the communities they are part of. GCE and GCU continue to work together to make a real and positive impact on the inner city community in which we reside to a five-point plan that is producing real results. Part 1 of the plan is to grow both GCU and GCE in this neighborhood. Together, we have created 11,000 jobs, 5,000 full time, 3,000 part time and 3,000 student workers. When you add construction and other related jobs the conservative estimate is that we are worth $1.1 billion to the Arizona economy on a yearly basis. Part two is spinning off 12 new businesses that employ over 400 people in just the last three years. In addition, we have 22 new businesses incubating currently in an innovation center. In part three is the $1.6 million neighborhood safety initiative that has property and violent crime down over 11% in the recent year while it is up in almost every other zip code.

The fourth part is one of the largest habitat for humanity programs in the world. Together, we have restored over 250 homes to-date with the goal of being 800. Since we started the program housing values are up 302%. The fifth part is support for local K-12 schools. GCU has 1,200 students providing tutoring for over 100 schools in West Phoenix between 3:00 o'clock and 8:00 o'clock Monday through Friday and 10:00 o'clock to 6:00 o'clock on Saturday. We have raised money to support 250 students through full tuition scholarships that come out of the program with the goal of building that number just to 800.

I'm extremely excited about what students, faculty and staff of GCE, GCU and Orbis have been able to accomplish through these initiatives. Our progress is producing real actual results to improve people's lives and it's unprecedented in the higher ed world.

Now turning to the results of operations. We have provided supplemental non-GAAP financial information that excludes amortization of intangible assets, loss on transaction expenses and contributions made in lieu of state income taxes to schools sponsoring organizations to allow investors to develop more meaningful understanding of the company's performance over time in its educational services business.

Service revenues were $193.3 million in the third quarter of 2019, compared to $155.5 million in the prior year. This represents increase of 24.3%. The increase year-over-year was primarily due to our Orbis acquisition on January 22, 2019, and an increase in GCU enrollments between years. The Orbis Education university partnership agreements generally generate a higher revenue per student than our partnership with GCU, as these agreements generally have a higher percentage of service revenue.

The Orbis Partners have higher tuition rates than GCU, and the majority of these students are studying in accelerated Bachelor of Science in Nursing program. So these students take, on average, more credits per semester.

We are also seeing an increase in revenue per student from our GCU partnership, resulting from the increase in residential students. End-of-period enrollment increased 10.2% quarter-over-quarter to 108,821 from 98,715.

As adjusted operating income and as adjusted operating margin for three months ended September 30, 2019 was $65.9 million and 34.1%, respectively. As adjusted operating income and as adjust operating margin for the three months ended September 30, 2018 were $55.3 million and 35.6%, respectively. GCE will continue to invest profits to create additional education infrastructure for our partner institutions that will create more opportunity for students and families.

Technology and academic services grew from $11.1 million in the third quarter of 2018 to $24.2 million in the third quarter of 2019, an increase of $13.1 million, or 118.3%. This increase was primarily attributable to the Orbis Education university partnership agreements which require certain technology and academic services including head count, 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 enrolment resulted in the increase.

As a percent of comparable revenue, these costs increased 540 basis points to 12.5% from 7.1% primarily due to the Orbis Education university partnership agreements requiring a higher level of technology and academic service in our partnership agreement with GCU.

Counseling services and support expenses grew from $51.1 million in the third quarter of 2018 to $56.3 million in third quarter of 2019, an increase of $5.2 million, or 10%. This increase was primarily attributed to the Orbis Education university partnership agreements which require certain counseling services and support, principally head count, to be provided to each university partner. These costs along with the increased cost to service our primary university partners, GCU's increased enrollment, resulted in the increase.

As a percentage of comparable revenue these costs decreased 280 basis points to 29.1% from 32.9% primarily due to the counseling services and support cost to serve the Orbis Education university partnership agreement being left as a percentage of revenue at the cost to 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 decreased 100 basis points. From Q3 2018 to Q3 2019, this decrease is primarily due to our ability to leverage our marketing and communication across increasing revenue base.

General and administrative expenses increased $3.5 million between years and as a percentage of comparable revenue increased 50 basis points to 7% in Q3 2019 from 6.5% Q3 2018. This increase was primarily due to increases in the employee compensation and benefit costs between years and other general and administrative costs including professional fees and in occupancy and depreciation. Our increases in employee compensation, occupancy and depreciation, and other general and administrative costs are primarily related to the acquisition, including additional head count 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 third quarter, talk about changes in the income statement, balance sheet and other items, as well as to provide 2019 guidance.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

Thanks, Brian. Included in our Form 8-K filed with the SEC, we have included non-GAAP net income and non-GAAP diluted income per share for the three months ended September 30, 2019. The non-GAAP amounts exclude the tax affected amount of the amortization of intangible assets and the loss on transaction amounts included in our consolidated income statement. The amortizable intangible assets acquired in the Orbis acquisition totaled $210.3 million and amortization expense in the third quarter of 2019 was $2.2 million. We believe the non-GAAP financial information allows investors to develop a more meaningful understanding of the company's performance over time.

As-adjusted non-GAAP diluted income per share for the three months ended September 30, 2019 is $1.24. Service revenue exceeded our expectations in the third quarter of 2019 due to slightly higher revenue per student from GCU, partially offset by slightly lower revenue per student than expected from Orbis partners. GCU online, GCU ground, residential and Orbis enrollments met or exceeded our expectations.

Our effective tax rate for the third quarter of 2019 was 20.7%, compared to 20.5% in the third quarter of 2018 and our guidance of 21.0%, slightly lower rates due to lower excess tax benefits of $0.4 million in Q3 2019 from $1.4 million in Q3 2018.

We repurchased 64,335 shares of our common stock in the third quarter of 2019 at a cost of approximately $7 million and another 77,622 shares at a cost of $7.7 million in October. We had $70.8 million available under our share repurchase authorization as of September 30, 2019. We extended our expiration date on our share repurchase authorization to September 31 (sic) [30], 2020.

Turning to the balance sheet and cash flows, total unrestricted cash and short-term investments at September 30, 2019, were $133.9 million. Restricted cash and cash equivalents were $300,000 as of September 30, 2019 and represents pledged collateral for a lease site.

GCE CapEx in the third quarter of 2019, including CapEx for new Orbis partner sites, was approximately $5.5 million, or 2.8% in 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 build-out of Orbis partnership's locations.

No additional funding was provided to GCU for capital expenditures in the third quarter of 2019. GCU repaid $60 million on the outstanding loan during the third quarter of 2019 and another $40 million in October.

We entered into a second amendment for the credit facility on October 31, 2019. This amendment increased the revolving commitment by $68.8 million to $150 million. The term loan was reduced by the same $68.8 million to $150.6 million. We elected to repay the $68.8 million revolver balance on November 1, 2019.

Last, I'd like to provide color on the guidance we've provided for the fourth quarter of 2019. The guidance that we have provided continues to be non-GAAP as adjusted net income and as adjusted diluted income per share as we exclude amortization and acquired intangible assets and loss on transaction. We have increased revenue and operating income guidance for the full-year due to the third quarter beat and have reaffirmed fourth quarter revenue and operating income guidance.

We continue to believe that net interest income in the fourth quarter will be $12.5 million, although the repayments from GCU will decrease interest income on the secured note but that will be offset by reduced interest expense due to our pay down of the note payable. Our effective tax rate for the fourth quarter remains at 22.6% and we have lowered our weighted average shares outstanding due to the stock buyback discussed earlier.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Jeff Meuler from Baird. Your line is now open.

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

Q

Yes, thanks. So, first just want to ask about the online enrollment growth or new enrollment growth at GCU. I know that you said across the institutions that enrollment met or exceeded your expectations but mid-single digit is slower than it's been the last few quarters. So, I don't know if this is rounding error but just if you can talk about I guess is the constraint enrollment advisor head count and I think this is a seasonally busier time of year. But just any comments on the GCU online new enrolment growth.

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

A

No, it's just third quarter is a – it's a big quarter. The comps are – those are the toughest comps, third quarter comps are the toughest comps. And so, we expected that it would be a little bit lower than in the other quarters. And so, it came out about as we expected.

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

Q

Okay. And then just as we start to see the repayment of the counterparty CapEx by GCU. Just maybe as the President of GCU can you just comment on the financial health of the university and is the expectation that your GCE is done providing counterparty financing and we should continue to see some level of repayment?

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

A

Yes. We are now a year into this transaction, and both GCU and GCE, from a financial perspective, are doing very well. It's coming out about as we expected, which is very, very good news. The fact that we've already repaid $100 million, on that note, is a very, very positive sign and we will continue – as GCU's President, I'm speaking now, we will continue to pay that note down.

And so, the worry about the health, the financial health of Grand Canyon University is not even close to the reality, Grand Canyon University is doing well. In fact, until we pay that $100 million down, we had $350 million in cash already. So things are going well.

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

Q

Okay. And then, just last for me, on the other OPM, the fourth pillar. I get that you want to be disciplined and sign the right partnership, but there was something in your language about some of these partners have existing programs and just, I don't know, is that a meaningful barrier or what were you getting at there?

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

A

No, it's consistent, very interesting to us that many of the people that we're speaking to have had a partner in the past. And in many cases, it has not lived up to their expectations. Things have not worked out as they had hoped, which that provides a little bit of an obstacle to us, a challenge to us because with [ph] thoughtfully (25:23) and others want to know is what's going to be different this time?

And so, there are two issues to be worked out there. One is what's going to be different this time, and so, you have to explain that. And the other is there's a little bit of hesitancy in terms of some of those back-end things, like, financially. And so, it takes us a while to walk through how automated we built – the systems that we built, how automated they are and how tremendous results that they're providing. We just finished an audit at – from a financial aid perspective and it was amazing. We just finished an audit from a VA perspective, and there was a single finding. And the VA said, they've never ever seen that.

But it's because we've eliminated a lot of potential in those things for human error. We think that a lot of the reason that these institutions have not been successful with other partners is that scale is difficult and you can't do the back-end functions. But we're trying to convince them of this. We're not talking about something that hasn't been proven. GCE has a partner with 100,000 students. And so, it's been proven. And so, we will continue to work at that and we'll find the right partner.

But I think the most important thing is we already have 21 additional partners through Orbis. And those are in very non-competitive areas and we will continue to work at and invest in that part, because it's meeting a huge need. It's doing it in a very high-quality way with very high-quality metrics. It's completely non-competitive with GCU's offerings. And so, that's another thing that's going better than we even anticipated originally for the most part.

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

Q

Got it. Thank you.

Operator: Thank you. Our next question is from Jeff Silber from BMO Capital Markets. Your line is now open.

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

Thanks so much. Just a quick follow up on that last question from Jeff. Also in your prepared remarks, I think you specifically stressed that with the partners that you may have turned away some because you need faculty buy in. Has that been an issue? This is something that I don't remember you bringing up that much in the past beforehand.

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

A

In a couple of cases definitely. Definitely, the faculty have been resistant and we understand that. That's – it's – you have. It's really, it really is the beginning of a new era for an institution when you think about scaling it. It's not – if you're going to add 100 students in a particular program. But if your student body today has – let's just – I'm just throwing out numbers, has 5,000 students and the goal is to add 5,000 students. That makes people nervous.

Now the impact of that when you leverage a common infrastructure, like, it's happened at GCU is huge. It can be really impactful, but what you have to – we've got to finding institution that really wants to do that. And we will eventually but we don't want to sign a deal with an administration that realizes how impactful this could be. But the fact we are not going to be on board. That was my only comment. And so, if it takes longer...

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

Okay.

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

A

... then it will.

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

Got it. That makes sense. I appreciate the color. Let me go back to the other three pillars. You've got pretty sizable upside surprise in the quarter. Can you kind of rank what drove that?

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

A

From an earnings perspective?

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

Correct. Yes, I'm sorry.

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

A

It's the continuation of what we've seen this entire year where we've been able to hit our new and total enrollment goals without significantly increasing staffing. And so, that's obviously very, very exciting to us and, frankly, something that's probably different than what most universities are seeing.

And so, if you look at head count per student across GCE, it's down. And so – but that's continued, that's been a trend that's continued over the course of this year. As we look into next year, I'm not sure we'll be able to continue to drive that kind of upside. We'll probably have to start increasing staffing. And so, I think 30 basis points or whatnot increase in margins next year is probably a lot more reasonable to think about than what you've seen this year. But that's what's driven it. Anything, Brian, to add to that?

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

Okay. I guess not. Dan, I'm sorry...

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

A

I'm sorry. Yeah, I know.

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

[indiscernible] (30:48). So you had a perfect segue for my next question. Anything else – I know you're not going to give 2020 guidance till next quarter, but anything else we should be aware about that might be different in 2020 than from what we've seen in 2019?

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

A

No. I mean, I think, as Brian stated goals very clearly on the pillars. We want to grow GCU online 6% to 7%; GCU ground, they want to grow roughly 1,500 net students. Most of them, if not all, will be residential. And then, Orbis, we want to be at 30-plus percent revenue growth next year and feel good about our ability to do that given the partnerships that they've signed this year and locations that will be opening. Although, I will say most if not all of those new locations will be open in the fall next year, we don't believe any of them will be open before the fall. And so, that's something to be factored into guidance for next year.

Jeffrey M. Silber
Analyst, BMO Capital Markets (United States)

Q

Okay. I appreciate the color. Thanks so much.

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

A

I'll now turn the call back over to Brian for one final statement.

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

A

As we have discussed previously, on January 18, 2018, in connection with our proposed sale of Grand Canyon University to an independent 501(c)(3) non-profit entity, Grand Canyon University voluntarily filed a request for pre-acquisition review of the transaction with the U.S. Department of Education, seeking the Department's review of the proposed transaction and input as to any regulatory limitations such as the letter of credit or growth restrictions that the Department might choose to impose on Grand Canyon University following the closing of the transaction. While GCU had ongoing engagement with the Department about the transactions throughout the ensuing months, the Department failed to respond to the request.

However, based on this engagement and a number of other factors, including the historical financial strength and performance of GCU, the importance to GCU of completing the transaction and reverting to its historical non-profit status and advice from the respective counsel to the company and GCU about the risk involved in closing the transaction prior to receiving the Department's feedback, the board of directors of the company, and the board of trustees of GCU concluded that the benefits of consummating the transaction at that time were numerous.

And any regulatory limitations imposed by the Department could be managed, particularly since GCU's regional accreditor and state regulator had already approved the transaction. The transaction closed on July 1, 2018. GCE has since operated as a service provider to GCU and following its acquisition of Orbis Education in January 2019 to 20 other university partners. While GCU has since operated as an independent private university accorded non-profit 501(c)(3) status by the IRS and treated as a non-profit entity by the State of Arizona among others.

We are pleased to report that approximately one hour ago and more than 16 months after the transaction closed, GCU informed us that it had received correspondence from the Department confirming that the Department has approved the transaction and granted to Grand Canyon University a provisional program participation agreement, permitting Grand Canyon University to participate in Title IV HEA programs for the period through June 30, 2022.

This PPA is automatically granted on a provisional basis due to the fact that the transaction constituted a change of control of the university. We understand that the provisional PPA has been granted without any requirement to post a letter of credit or any growth restrictions. We and our client have waited a very long time to reach this point and we are pleased that the Department has finally acted after these many months. As noted above the IRS granted the university status of a 501(c)(3) tax exempt organization and other governmental entities including the State of Arizona also treated as a non-profit entity.

In addition to receiving the provisional PPA however, we understand that Grand Canyon University was also informed by the Department that the University does not satisfy the Department's definition of a non-profit entity and as a result, we'll continue to be treated as a for-profit entity for purposes of its participation in Title IV HEA programs. While we have not yet had a full opportunity to review this letter and the Department's reasoning, we do believe that Grand Canyon University meets all of the requirements to be treated as a non-profit entity for Title IV HEA program purposes and we would expect that University will initiate appropriate measures to challenge this decision.

In the meantime, we would like to strongly emphasize the following. As discussed many times, over the past several years, we did not undergo the transaction for the purpose of avoiding the various regulations, such as the 90/10 rule or gainful employment rule. It applies solely to for-profit entities.

Given the health of its finances and operations those for-profit only regulations have limited to no impact at all on the university's operations. We do not expect the Department's decision, if it withstands challenge to have any material impact on the university. We would simply repeat, again, that federal government in the form of the IRS as independently determined that Grand Canyon University is a 501(c)(3) tax-exempt organization.

Likewise, the university is treated as a non-profit entity by the State of Arizona. At this time, we remain unclear as to the basis upon which the Department is purporting to reach this conclusion. Since we just received this information within the last hour, you can appreciate that we need further time to digest it and to discuss it with our client. We expect to make a further statement once we have a chance to do so.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

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

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