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Grand Canyon Education, Inc. (LOPE)

Q1 2020 Earnings Call

CORPORATE PARTICIPANTS

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

Brian E. Mueller

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

OTHER PARTICIPANTS

Chris Howe

Analyst, Barrington Research Associates, Inc.

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Grand Canyon Education First Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. [Operator Instructions] As a reminder, this conference 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.

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

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

Good afternoon. Welcome to Grand Canyon Education's first quarter conference call. We are now almost 23 months into our existence as an education services company. I want to do three things on this call: first, continue to emphasize how we think GCE should be positioned with respect to the future of higher education; second, review the results that have been produced by each of the four pillars of our business in the first quarter 2020;

and third, talk about each pillar going forward in the context of the pandemic. I want to continue to emphasize that it is GCE's goal to create models that address the real issues within higher education that are going to be even greater challenges given the impact of the pandemic. The challenges are: college cost too much; secondly, students are taking on way too much debt relative to their income-earning potential; three, as tuition goes up, diversity goes down; four, Bachelor's Degree should not take four to six years to complete; five, programs are not tied directly enough to where jobs are; and six, there are inadequate counseling and support services, especially for first generation students or those studying at a distance.

We are very excited about GCE's direction relative to the challenges facing students, families, and the industries we are serving. In 2020, GCE's 24 partner institutions project to produce over 30,000 graduates, over 11,000 healthcare professionals, 7,700 education professionals, 4,600 in the business world, 3,600 in behavioral health, 2,500 in public service, social science and theology, and 600 in engineering and computer science. These students will graduate with less title IV debt than the average state and private university students in this country. They will have less than a 6% cohort default rate on student loans, will graduate from programs that passed the previous debt to income-earning ratios that were part of the gainful employment rules, and less than 75% of the revenues that are generated will be from Title IV programs.

Now, I'd like to review the four pillars in GCE's business. Grand Canyon University Online had 84,769 online students as of March 31, 2020, and in the quarter just completed, new students grew in the mid-single digits while total students grew 5.7% year-over-year. GCE's core business margin expanded 150 basis points in calendar year 2019 with a net tuition increase that averaged less than 1% at GCU Online. This is important for three reasons: one, GCU Online's tuition remains affordable and represents good value for our students relative to the positive impact it will have on their careers; two, it will allow GCE to continue to invest in advanced learning, counseling and administrative technologies as well as roll out at least 20 new academic programs per year; three, a major factor contributing to GCE's success in the midst of this pandemic is that we had previously set up over 95% of our staff to be able to work from home. Initially this was put in place as a benefit of working at GCE.

In the case of the pandemic, we could easily transition almost everybody to a work-from-home environment. All the work done previously from a campus office setting continues from a home setting, and in almost every case, productivity levels have gone up. Everything from admission intake, transcript evaluations, schedule building, financial aid work, technical support, curriculum development, faculty training and evaluation, curriculum design, student counseling services, HR services, accounting, et cetera, including interest in the programs have improved. As a result, not only have there not been layoffs, we were able to go through with the annual employee salary increases, which our staff are very grateful for.

The second pillar is the GCU traditional campus. The traditional campus started the spring semester with approximately 19,000 students, of which about 12,000 are residential, which is up 10% over the previous spring. GCU's campus is profitable without raising tuition in 11 years, and it has invested over \$1.5 billion in academic and other campus infrastructure. The campus currently ranks as the 19th best college campus in the nation according to Niche.com. Because all ground students and faculty were already set up and using components of our online learning system, the transition to online for the last four weeks of the semester went very smooth. Successful completion of course work was actually up slightly, and the grade distribution was excellent given GCU didn't have to resort to pass/fail grading. Summer classes are all being delivered online. So, there will be some loss of room and board revenue. However, summer student enrollments look likely they will be up over our initial projections. New enrollments, continuing enrollment, and residence hall reservations are all looking strong for the fall. 11 separate, but interconnected, work groups are developing a plan to open the campus in the fall. The goal is to create the same vibrant academic and community experience within the context of safety precautions that will be necessary because of the pandemic.

Students that are not comfortable returning can register to take their classes online in the fall. Their room reservation will be held for them so that they can come on-campus in the spring, if they feel more comfortable at that time. There has been a lot of talk of students not wanting to pay private or out-of-state tuition to go to college online. Given GCU's low ground campus tuition, that has not been raised as an issue to this point. There were some observers who predicted that the GCE-GCU partnership would produce good financial results for GCE, but would not work financially for GCU. They were very wrong. The university has publicly made available its financial statements for the year ended June 30, 2019 that show the university had over \$325 million in cash on its balance sheet, and had net assets of over \$387 million at June 30, 2019, and its cash flows from operations for the year ended June 30, 2019 were over \$123 million. The positive results for the university continued in the six months ended December 31, 2019.

Based on interim financial statements provided to us by GCU in which GCU has authorized us to discuss the university's cash balance at December 31, 2019 was approximately \$250 million. Its net assets grew to almost \$400 million. It generated over \$100 million in cash flows from operations during the six-month period, while funding all of its CapEx through its own cash reserves, while also paying down \$100 million on its debt. The university plans to continue using its excess cash to fund its continued growth, and pay down its debt. This was all done without tuition increases on the ground campus, and a less than 1% increase in net tuition on its online campus. It should also be noted that the pandemic is not having a negative financial impact on the university given the structure of the MSA with GCE.

The third pillar of the GCE strategy is Orbis. This is the strategy most misunderstood and most underestimated by investors. This purchase greatly accelerated GCE as education services company, and it addresses issues that have hurt many of the other OPMs. Orbis fits in the GCE's strategic plan because it originated as a result of a huge marketplace need, US will need 1 million additional nurses in the next five years alone as well as thousands of nurse practitioners and occupational therapists, and is using a very innovative delivery model. Orbis like GCU Online and GCU Ground will be profitable both to GCE and to the university partner. 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, endowments or other philanthropic donations are a huge benefit to the economy and state budgets. Orbis's growth has been greatly accelerated as a result of GCE's considerable support. Since we bought Orbis, seven university partners have been added, and as of today, we are up to 24 total university partners, including our first university partner for a new medical lab science program. At the date of the acquisition, we had 18 sites opened among 11 of Orbis Education's university partners. As of today, we have expanded to 23 sites locations and opened at 14 of Orbis Education's university partners. Additionally, we plan to open 11 sites locations in the next 12 months, 7 in the fall of 2020, and 4 in the spring of 2021, which would put us at 34 locations in the spring semester of 2021.

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. Thousands of Americans will be able to pursue their dream of becoming healthcare professionals making tremendous contributions to the healthcare industry because of these partnerships. GCE will continue to support Orbis with capital, marketing and operation support, including advanced technologies. In terms of metrics, the graduation rates are approximately 90%, and first-time pass rates on the NCLEX exam are consistently over 90%. GCU's nursing programs in the last three quarters produced over 95% first-time pass rates.

Orbis's revenues grew 53.7% on a year-over-year basis for the three months ended March 31, 2020, and 29.6% on a pro forma basis, including the 21 days in January prior to our acquisition date for the three months that ended March 31, 2019. Enrollments have grown 18.2% year-over-year as of March 31, 2020, with accelerated

pre-licensure nursing enrollments growing 23.4%. Every new location opened represents an opportunity for GCE that has greater potential than most other OPM contracts in the space. Each location opened requires less than a \$3 million investment, and will turn profitable in its second year of operation, eventually producing greater than 30% margins, which can be reinvested into adding more programs at the site and opening more sites. The goal is to be in 70 locations in the next seven years.

To summarize, we are very focused on this Orbis opportunity for four reasons: one, the huge need the country has for healthcare professionals, especially baccalaureate-prepared nurses; two, the opportunity to grow into 70 potential locations; three, the locations will become profitable in just their second year of operation; four, the relatively small amount of investment needed to get locations up and running. All of the Orbis partners have moved students through their individual university programs during the spring term. At this time, we have confirmed that all of our partner programs intend to continue delivering quality healthcare education in the summer term into the fall and beyond. The academic delivery in the current environment has been challenging, and the Orbis team has been working with our university partners to find successful operational modifications to continue success for the student population that will become essential professionals within our communities. The Orbis team has been involved in several developments within various programs, including but not limited to virtual simulation, lab modifications, logistic and operation support for curriculum timing and adjustments within a term, and alternative testing. Some of these developments may become standards within programs as they improve the educational experience, and efficiently deliver content to students. Even with all of the successes Orbis and our university partners have recently achieved, there will be some short-term impact on the summer term based on students that would normally relocate out of state to start a program that are delaying for a semester. Overall, demand for the programs has increased as more potential students see healthcare as a solid option for employment. The interest level for potential university partners has also increased.

GCE's fourth pillar is to find three or four partners interested in a more comprehensive arrangement. Since the pandemic began, there has been an increase in university inquiries for possible partnerships given that many universities are concerned about their financial future. We continue to work at this pillar, but we'll continue to be selective. The model of many partners, many low enrolled programs at very high price points is not interesting to us because the model doesn't fundamentally address the real challenges identified earlier in higher education. We believe we can add tremendous value to university partners in the Midwest and Northeast, and are in dialogue with a number of them. Most of them have had partnerships in the past that have not been successful. Our strategy of front-end services combined with robust back-end services is clearly a differentiated approach. The model we are suggesting is proven on a very large scale. GCU's hybrid campus having large student bodies in both major markets leveraging a common infrastructure 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 comes away impressed.

Our three core pillars are performing well, have great potential, and as a result, we have the ability to be selective. If we find a right comprehensive partner, we will sign an agreement. If you look at the strategies of other OPMs in this space, those contracts would most likely be dilutive rather than accretive to our current plan. In addition, the huge upfront investments of these arrangements would place significant risk on our current business.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color in 2020 first quarter, talk about changes in the income statement, balance sheet, and other items, as well as to provide 2020 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, 2020, and 2019. The non-GAAP amounts exclude the tax-affected amount of the amortization of intangible assets, the loss on transaction amounts, and the impact of a large state tax refund received in the first quarter of 2019 related to taxes paid in previous years. The amortizable intangible assets acquired in the Orbis acquisition totaled \$210.3 million, and amortization expense in the first quarter of 2020 and 2019 was \$2.1 million and \$1.7 million, respectively. 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 March 31, 2020, and 2019 is \$1.53 and \$1.52, respectively. Service revenue was slightly below our original expectations in the first quarter of 2020 due to the decrease in ancillary revenues at our primary university partner, GCU, due to the COVID-19 outbreak. This had the impact of reducing our revenues by \$1.8 million in the first quarter. Included in both our Form 8-K and the Form 10-Q filed today is a detailed explanation of the actual and projected COVID-19 impacts on the university's spring and summer semesters, and I will discuss these in more detail in a few minutes. Excluding the COVID-19 impact on GCU's ancillary revenues, service revenues was slightly above our expectations. As we have discussed previously, overall enrollment growth has been pressured over the last few quarters by an increase in the graduation of online students year-over-year, and the fact that professional studies students and ground commuter students are flat to down year-over-year. But revenue per student continues to increase as we continue to see very encouraging growth in the areas of our focus, including online, residential and Orbis enrollments, where revenue per student is the highest.

The decline in professional studies accelerated in the first quarter 2020, we believe due to the COVID-19 outbreak, but other revenue sources more than made up the difference including higher Orbis revenues, due to slightly higher than expected enrollments, and higher than expected Orbis and online revenue per student, and ancillary revenues prior to the COVID-19 outbreak. Our effective tax rate for the first quarter of 2020 was 24.2%, compared to 13.5% in the first quarter of 2019, and our guidance of 23.3%. The lower rate in 2019 resulted from an agreement with the Arizona Department of Revenue regarding previously filed refund claims for income tax obligations for prior calendar years resulted in a favorable discrete item of \$5.9 million in the first quarter of 2019. Also, we had a decrease in excess tax benefits from \$4.5 million in the first quarter of 2019 to \$0.6 million due to a decrease in our stock price between years resulting in a higher effective tax rate than our initial guidance for the first quarter.

We're also experiencing an increase in state income tax rates due to the growth of Orbis. We repurchased 786,503 shares of our common stock in the first quarter of 2020 at a cost of approximately \$60.7 million, and another 100,000 shares at a cost of \$7.5 million subsequent to March 31, 2020. We had \$66.6 million available under our share repurchase authorization as of March 31, 2020.

Turning to the balance sheet and cash flows, total unrestricted cash and short-term investments at March 31, 2020 were \$149.5 million. GCE CapEx in the first quarter of 2020, including CapEx for new Orbis partner sites was approximately \$6.1 million or 2.7% of net revenue. We continue to anticipate CapEx will be between \$30 million and \$35 million in 2020 due to the build-out of the 11 Orbis partnership locations. We provided no funding to GCU for capital expenditures in the first quarter of 2020. We anticipate GCU will make some additional repayments in the second half of 2020 on the capital expenditure loans. As a reminder to investors, the note due from GCU is secured by all of its assets. Given this, it is very difficult for the university to get financing from any other source than GCE. GCU has informed us that it has the ability to fund its capital expenditures going forward, but under the agreement, we are required to provide them funding if they want to borrow for short-term cash flow purposes.

Last, I would like to provide color on the guidance we have provided for 2020. The company initially provided guidance for fiscal 2020 by quarter in its fourth quarter and full-year 2019 earnings release issued on February 19, 2020. The company has provided a revised outlook for the second quarter 2020 in its Form 8-K filed today that takes into account our best estimate of the impact of COVID-19 outbreak on our university partners revenue and operating income for their spring and summer semesters.

As Brian described earlier, new enrollments, continuing enrollments, and residence hall reservations, all look very strong for the fall. Our university partners all have plans to have face-to-face instruction in the fall. However, there is a level of uncertainty given what might happen in the next 90 days. Therefore, we are withdrawing our guidance for the third and fourth quarters of 2020. The guidance that we have provided for the second quarter continues to be non-GAAP as adjusted net income and as adjusted diluted income per share as we exclude amortization of acquired intangible assets. We have adjusted down our revenue and earnings guidance due to the lower anticipated revenue on our GCU contract as a result of reduced ancillary revenues. GCU will realize less revenue and board revenue related to both the spring and summer semesters. The majority of the university's residential students moved off campus in mid-March when the spring semester courses were transitioned to an online format, and summer school classes will also be delivered online. It will also realize less revenue from its businesses such as a golf course, hotel and Lopes shop, which were closed in mid-March. The university will also recognize less revenue as Doctor Residencies scheduled to be held on the university's campus have been canceled through the end of May.

We have provided ranges for revenue and EPS for the second and third quarters with the high-end of the impact being if these businesses are not able to open up until the start of the fall semester, and if the Doctor Residencies in June and July are cancelled. We have not included in the COVID-19 projections any adjustments in revenue earnings related to GCU's fall semester at this time, including ancillary revenues. Even if face-to-face instruction begins in the fall on schedule, there could be an additional decrease in revenue on the GCU MSA that is not included in the estimates provided beginning in late August. Included in the essence (sic) [estimates] provided is reduced revenue and operating profit from our other university partners of \$850,000 and \$1.7 million in the second and third quarters, respectively. As Brian discussed earlier, although we believe the spring semesters for our other university partners will be completed without interruption and each university partner still plans to begin its summer semester, it is currently anticipated that some students that were scheduled to start in the summer semester will delay their start until the fall semester, which will result in lower enrollments of approximately 200 in the summer semester, which represents a decline of approximately 20% of the originally projected summer new enrollments.

Our revenue guidance uses the midpoint of the range of the projected decrease in revenue. We partially offset this by increasing our revenue projections by approximately \$700,000, do a projected increase in tuition revenues from higher traditional summer school enrollments and higher revenue per student for Orbis and online students. On the expense side, we have not changed our expense projections materially. We do anticipate lower travel and other costs during the second and third quarters, but we plan to utilize the majority of those dollars in other ways to ensure that we meet our partners' enrollment expectations.

We have slightly decreased our net interest expectations due to lower interest rates on invested cash and lower excess cash. We have kept the effective tax rate the same for the second quarter as we had not originally projected much of an excess tax benefit in the quarter. We have decreased our weighted average shares outstanding amount based on stock repurchases. Although we might repurchase additional shares during 2020, these estimates do not assume repurchases other than those already made.

With that, I'll now turn the call over the moderator, so that we can answer questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Alex Paris with Barrington Research.

Chris Howe

Analyst, Barrington Research Associates, Inc.

Good afternoon. This is Chris Howe sitting in for Alex.

Q

Brian E. Mueller

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

Hey, Chris.

A

Chris Howe

Analyst, Barrington Research Associates, Inc.

Hey. Just wanted to go through some of your comments earlier just about some of the things that you're seeing within the environment as it relates to partnership opportunities. Can you go into more detail on this as to perhaps how discussions have changed or been delayed or perhaps there's a higher number of inbound calls from viable candidates?

Q

Brian E. Mueller

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

So, let's start with Orbis because we're putting a huge focus there in terms of partnerships. It is so clear to people, in fact we had one call from somebody we've been talking to for a while now, who have said, they were approached by Orbis 10 years ago, and their university would be in a completely different position financially right now had they done that deal 10 years ago. And so, they called us on two levels: one, the Orbis partnership, and also a potential greater partnership with us. Two others, one a state university, and one a private university both called. After the call, our discussion started, and then kind of didn't get where we needed them to, and now they've called again. And so, there has been a big increase in Orbis interest, and obviously nobody wants to claim victory and benefit from the disaster that this is. But it has brought to the fore the tremendous opportunity within the healthcare occupation. It's just – it is such a great way for universities to make a contribution to the needs of the country right now to produce healthcare professionals in very cost-effective, innovative ways and what Orbis is doing combined with GCE can provide is going to be a major solution to that problem over the next 10 years, and so it's not a surprise those calls are increasing, and we're excited about that. We have a lot of room for expansion. We believe that there are at least 70 markets right now that could benefit from having these programs in their market.

A

On the other side of it, we will continue to have talks with people. We'll go back to my initial comments, which I think those are becoming more and more and more [indiscernible] (00:29:01) the developments within higher education that we're already starting to see with regards to people being a lot more, a lot less interested in things like U.S. News & World Report rankings, and a lot more interested in your academic programs, and how they support where careers are going to be in the future. Can you do it in a very cost-effective way without my son or daughter going into a lot of debt, can you do it in a way that doesn't take four, five or six years, but because by son or daughter is really smart, and they've earned college credit in high school, they can finish in two-and-a-half

or even three years. Those are all becoming very important discussions, and it's very difficult to address that price point pressure that is going to be there in an even greater way. I mean, you're reading the same articles we are. I'm not going to pay \$40,000 in tuition for my son to sit next to me on the couch and study online. And so, one of the biggest – one of the most interesting things about this time right now is how solid our fall projections are on ground.

I had a very interesting [ph] meeting (00:30:30), I call it, but we have a parent council at Grand Canyon. I wanted to talk to parents. And so, we had an incredible Zoom meeting. The parents came from Massachusetts, from North Dakota, Washington, Colorado, California, and I just opened it up, and said, I want to know what are you thinking about from this fall's perspective. Every single one of them wanted their son or daughter at Grand Canyon University in September, and I was feeling increasing pressure as we were talking, but they want them on this campus. And it's for the purpose so they can continue their education in a very cost-effective way. They consider Arizona to be a fairly safe place. The heat is going to have an impact. And they know that we're working very hard on a plan to open and keep this place as safe as possible. So, my point in saying all of that is that in that fourth pillar, any arrangement that we do with another university has to involve programs that are really interesting programs to students that will lead to really well-paying careers and that could be done in a cost-effective way. These \$80,000 and \$100,000 Master's Degrees are going to be very difficult to get people interested in going forward. And so, very excited about the first pillar. We had a really good April. Very good – very excited about the second pillar, extremely excited about the third pillar, and the fourth pillar is still sitting there, but it's – it has to be done in a way that fits into our core strategies, and if we can't do it, we're not going to get pessimistic about that at all. We won't do it because it doesn't fit with what we think where the future of higher education is going.

Chris Howe

Analyst, Barrington Research Associates, Inc.



That's excellent, and very helpful, and to me, this just highlights the efficacy of the services that you offer as well as the quality of the institution that GCU is. And thinking of that, not to paint too much of a negative perspective, but if we look at some markets that you're targeting that have been the hardest hit by the pandemic, whether it be the Midwest, the Northeast, California, any change or shift to your marketing strategy as you look to capture market share in these territories, and to me it just highlights GCU and the online [indiscernible] (00:33:15) of the university.

Brian E. Mueller

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



Well, I think it's not really a shift, but I think, and people are writing about it, it's going to be very difficult it looks like for universities to be successful in the future if they aren't in a growth mode. That size is going to be important, leverage is going to be important. We'll come out of this, and there's going to be the top 1% or 2% that can go to the Ivy League schools, there's nothing wrong with that. I mean, it's fantastic, they'll benefit from it, it'll all be fantastic. But when you think of Middle America and you think of smaller both private and state institutions that are not in a growth mode that haven't invested in technology to do things more efficiently, they're surviving a lot on international students that pay very high tuition rates, and then out-of-state students that pay high tuition rates, that financial model is going to be stressed in the next 12 to 24 months. We've been pressured a lot about our international strategies, and our response has always been we have got to be – we've got to make sure that we are providing private higher education that's affordable to all socio-economic classes of Americans, and we need to get a greater percentage of our high school graduates involved in very affordable high quality programs. To us, that's a lot more important than those international strategies. And in this case, it's going to be so much to our benefit.

Chris Howe

Analyst, Barrington Research Associates, Inc.

Thanks, Brian. I'll hop back in queue.

Q

Brian E. Mueller

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

All right. Thank you.

A

Operator: And your next question comes from the line of Jeff Meuler with Baird.

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Thank you. Good afternoon. So, I have a few things that you said in some of your [indiscernible] (00:35:35), but you said that interest in programs has improved, and you had a very good April. Can you just put some, I guess, either numbers around it or qualitative details, it sounds like demand is accelerating for GCU Online, if I'm hearing it correctly?

Q

Brian E. Mueller

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

Yeah. It is, it is [indiscernible] (00:35:57) the one thing – we did a couple of things that really helped us. One was our ground campus, every [indiscernible] (00:36:06) system, and they do use it even though classes are [indiscernible] (00:36:13) so, we transitioned those students, that went very smoothly and [indiscernible] (00:36:21) we got those things back, and families were very excited and very happy about that. From an online standpoint, 95% of our people were already set, enabled to work from home in almost every single one of our position, and those processes had been automated, [ph] so no papers (00:36:39) involved, and when students are – when prospective students or even current students are calling, somebody is picking up one the first ring. And that person that is picking up [indiscernible] (00:36:50) their counseling.

A

And you can't underestimate [indiscernible] (00:36:56) right now a lot of businesses, including universities, they are hard to do business with, but you can't get a hold of anybody. And so, just think about all the electronic signatures and all that work we did on all of that. We started thousands of students in April, and we did all that admissions work, and all that transcript evaluation, and all that financial aid work, and all that technique work, all the technical support work [ph] of setting up the (00:37:26) students on the system, building the scale, all of that was done through automation and technology, and so – and we have the ability to look at the productivity levels of all those processes, and productivity actually went up. Our staff was extremely excited, number one, they keep their job, they keep their income, they are at home, which means they can watch their children, and we then approved a merit increase, which – that goes a long way with both faculty and our staff in terms of providing high levels of service, and we're getting a lot of feedback from our students that they're very, very happy that this is one place that they are – that is stable in their world. And of course it enabled us to return all the CARES money to students, we didn't keep any of that, and that made our students very happy. And so, we're in a pretty good situation now [indiscernible] (00:38:42) I'll say what I always do, it's still competitive. But, yeah, we feel good about what's going to happen going forward.

The biggest challenge, and it's going to be the biggest challenge we've had in 12 years, maybe the biggest challenge we've had in 30 years, is the opposite of what people think. Our parents and our students whose kids expect to be on this campus in August, they expect to be on this campus in August, and they are incredibly

looking forward to it. And so, we've got 11 work groups that are in place right now, and we are building a plan to cover every aspect of what happens here, and obviously our goal is to keep people safe, especially our professors, many of whom are over 60 years old. So, there'll be a lot of technology applied to our ground-based classrooms too in order to make all this work safely, but – like other universities, we're working very hard at it.

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

Q

And in terms of the increased GCU Online demand, is it coming from individuals that are not currently enrolled in college or is there a sizable amount that's coming from universities that are current – or students that are currently enrolled at other universities that, like you said, don't want to pay a high tuition to do online?

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

A

There's a little bit of that. We are getting stories. You know how it is on ground. Students apply to three or four different places. Three or four or five different places, and they look to where they get the best deal, and [indiscernible] (00:40:15). And so, what's happening is they can't get a hold of other people, and so they're getting serviced by our person very well, and we get the student. So, there's a little bit of that going on, but that's ground. Online, it's – no, there's not a lot of students leaving other institutions coming here as a 19 year old online. This is mainly our successful April, was mainly the same kind of students that have always come down to online, 33 or 32, 33 years old, working adults, mid-career professionals, wanting to complete a doctoral, master's or baccalaureate degree.

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

Q

Okay. And then, just on Orbis, can you help me better understand kind of what they've changed from an academic delivery perspective. And I guess, what are they still doing in person, and has there been disruption to the ability to get slots at hospitals for that part of the education?

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

A

Are you talking about Orbis now or...

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

Q

Yes, yes, Orbis. Orbis.

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

A

Yeah. Some of the work they did in the classroom setting is done through virtual simulation, a little more of it's done through virtual simulation than was done in the past. But – and so, that helped some – that's helped some, but I think what's going to happen is that now that they have two to three months to plan for the fall. The good thing about Orbis is even the lab work that happens in person happens in small groups. And so, they will be able – like we will be able to, here on our campuses, organize those simulation labs, organize the biology labs, the chemistry labs so that there are groups of less than 15, maybe less than 10, there'll be adequate spacing, there'll be protective equipment, there will – in many cases there'll be a grad assistant in the classroom with the professor being Zoomed in. Those are all things that they will do, and we will do here on this campus to make sure that the

students get their work done in a safe environment. And we are very dialed in to having to keep our professors safe because many of them are older and more vulnerable. But we're getting so good at Zoom, and have been so good at those kind of things that – those adjustments are not going to be hard for even lab programs.

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Q

And in terms of the in-hospital component, is getting that capacity a greater challenge as they focus on priority number one, the COVID response?

Brian E. Mueller

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

A

In the short run, yes. But in the long run, they're figuring things out. It's just one of those things, where the – in the short run, there was such panic in terms of the hospitals and their utilization and their – and the overcrowdedness that they were anticipating, it hasn't really happened. And so, adjustments are being made, and I think everybody will be in a good position in the fall. Now, we all understand, and – that the flu season comes back in November and December, and everybody's cognizant of that, I think everybody is anticipating that, and we're trying to make every preparation, put every preparation we can in place to make sure we're better prepared for that.

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And then last one. Just given that – I understand everyone wants to be back on campus this fall, but in the event that they're not, can you just give us a sense of how much ancillary revenue from GCU GCE generates so that we have some sensitivity if the campus would remain closed on a more prolonged basis? Thanks.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

A

Yeah. GCU generates about \$100 million a year or \$50 million a semester from its ancillary revenues, including room and board. So, GCE would be 60% of those numbers.

Jeffrey P. Meuler

Analyst, Robert W. Baird & Co., Inc.

Q

Thank you.

Operator: Your next question comes from the line of Jeff Silber with BMO Capital Markets.

Brian E. Mueller

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

A

Hey, Jeff.

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Q

Maybe I have a regional bias being in the Northeast, but we're seeing anecdotally a number of parents wanting to keep their college age students closer to home. I'm curious if you're seeing any of that, and if that might shift the mix of students you have to more local-based students as opposed to folks coming in from out of town?

Brian E. Mueller

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

A

My honest answer to that is I was hoping to see more of that with – we're clearly saying to students and families from our ground campus that if you are in any way uncomfortable with coming to campus, the classes that you're currently scheduled for, you can take online. And so, if you have preexisting conditions, if you have any kind of lung problems, and you can stay home, we would encourage you to do that. We have basically a mini hospital – clinic of 450 beds set up here, so that if any student that would test positive, we can quarantine them with the professional nurses if that would happen. But we would prefer that if they have conditions that make them susceptible that they do stay home, we're just not hearing that a lot want to do that. We're hearing that many parents feel like this is a safe place for them to be, and I tried to reemphasize that, listen, college campuses are very dense places, and we'll do everything we can. But right now as we sit here today, we are fully booked in our residence halls. And so, if things change a lot...

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Q

Okay.

Brian E. Mueller

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

A

...in the next 90 days, we think it's going to be a fairly full campus.

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Q

So, let's assume that's the case, but there's still concerns about the virus, and there probably will be, how is the campus experience different. I mean, how're you going to institute social distancing, are you going to allow fans of the basketball arena, I'm just curious what your thought process are.

Brian E. Mueller

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

A

Yeah. There's going to be some significant differences, that's for sure. We're doing a lot of work around our classes and our classrooms and our professors, and there'll be some adjustments. If there's 30 students in a class at least twice a week, they might meet once a week in groups of 15 so we can keep better spacing, and then the professor could possibly be Zoomed in with a grad assistant are using – are in the class. So, there'll be a lot – there'll be adjustments made with our classrooms, our classes and our professors. Right now, it's just – unless things change a lot in next 90 days, we're not sure about large gatherings, which is a big part of what we do here. So, chapel services of 7,000, basketball games that are sold out, I'm attending the Presidents' meetings in the NCAA. As I see things and I'm listening to what people are talking about, I think we're going to have athletics without fans for at least this first semester, and we'll have to make those adjustments.

We've got a lot of very open space here, and – a lot of very open space for activities, and people are hearing that it's 20 times safer outside than it is inside, a lot of this is airborne stuff, and our weather is really nice, after we get through a little bit of heat, but even heat, we're thankful for now. And so, we will organize activities outside, and use our outside venues, and – more than we have in the past, and I think we're in a – it's not going to be the exact experience, but we'll make it as close to that as we possibly can. And we'll know more in 90 days.

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

All right. Great. Thanks so much.

Q

Brian E. Mueller

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

All right. Thank you.

A

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.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day. You may all disconnect at this time.

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