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Grand Canyon Education, Inc. (LOPE)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Grand Canyon Education Second Quarter Earnings Conference Call. At this time, all participants are in listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Sarah Collins, General Counsel. Please go ahead.

Sarah Collins
General Counsel, Grand Canyon Education, Inc.

Joining me on today's call is our Chairman and CEO, Brian Mueller; and our CFO, Dan Bachus. Please note that many of our comments today will contain forward-looking statements that involve risk and uncertainties. Various factors could cause our actual results to be materially different from 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.

With that, I'll turn the call over to Brian.

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

Good afternoon and thank you for joining Grand Canyon Education Second Quarter 2025 Conference Call. GCE had another strong quarter, producing online enrollment growth of 10.1% and hybrid growth excluding the closed sites and those in teach-out of 15.4%. With that, I would like to review the results of the four delivery platforms at GCE.

First, the online campus at Grand Canyon University. New starts were up in the mid-teens in the second quarter of 2025, which exceeded our expectations and total enrollment growth was 10.1%, which significantly exceeds GCU's long-term objectives. In the past, I've – I highlighted four reasons for the growth. They include, continuing to roll out 20-plus new programs on an annual basis, working with over 5,500 employers directly to address workforce shortages, increased retention levels again in the second quarter, and holding the line on tuition to maintain GCU's competitive pricing position.

A fifth reason and one growing in significance is the number of students between 18 and 25 years old that are choosing to do college online. There are very few universities that have 303 programs delivered fully online. The online campus growth is benefiting from the growing trend of high school graduates that are doing their total program online, as well as students attending the campus that go back and forth between living on campus and using the flexibility of online to engage in other life experiences. Given the trends I just discussed, we believe the momentum that exists in the second quarter will continue into the second half. Comps in the second half are more difficult, but we are still projecting new start growth will be in the mid to high-single digits.

Second, the GCU ground campus for traditional students. As has been previously discussed, new and total traditional campus enrollments were down slightly year-over-year in the fall of 2024 for the reasons discussed on previous calls, including the difficulty of navigating the new FAFSA site. Although the spring intake is much less in the fall, we did see an increase in new students starting in GCU – at GCU in the spring of 2025 as compared to spring 2024, which helped offset the increasing number of students that graduated at the end of the fall semester.

Summer ground enrollment increased 16% over the prior year. Traditional students included in the ground enrollment at GCU at June 30 of each year only includes traditional-aged students that have been attending campus that are taking summer school classes. This has become another reason students are able to graduate in less than four years.

We believe GCU will reaccelerate new student growth on the ground campus because of its significant advantages, including very low price point, very low average debt levels, percent of students completing in less than four years and the relevancy of GCU's academic programs. We are currently approximately 10% ahead of last year in new student registrations for the fall of 2025. And although we continue to see greater than historical numbers of students registering and melting at this time of the year, we remain optimistic that we will start the fall 2025 semester 10% above last year in new students, but flat year-over-year in total on campus enrollment.

Fall in total enrollment is being greatly impacted by summer graduations. Summer school enrollment was greater than expected and approximately 300 of those students took the credits needed to graduate in the summer rather than return in the fall, which gives their professional career started a semester earlier and reduces the debt level their families need to incur.

As we move forward, there are three trends that are impacting traditional college campuses throughout the country. Number one, the number of high school graduates, on an annual basis, continues to decline. Number two, the percent of high school graduates that are choosing the four or five-year baccalaureate path continues to go down, while the number of students choosing shorter certificate or trade programs is going up. Number three, the number of high school graduates choosing a baccalaureate path, but doing it fully online also continues to go up.

We are in a very strong position given those trends. We have a high quality, affordable offering on the GCU ground campus, but have even greater program choices for students that want to go fully online or to move back and forth between ground and online. In the future, we will be reporting growth of traditional students under 25 years old and the growth of non-traditional students 25 and older. The purpose will be to accurately reflect the flexibility that GCU provides to students across the lifespan, leading to growth levels greatly exceeding the overall trends across the country.

Third, Grand Canyon Education's hybrid campus had an increase in enrollment year-over-year of 14% in the second quarter. Excluding the closed sites and those that are on teach-out, enrollment increased 15.4% year-over-year. We expect the new enrollment growth rate to remain up in the low to mid-teens during the second half of 2025. There are two main reasons for this continued growth. Number one, almost all of our active ABSN partners have responded to the younger students interested in ABSN programs by admitting advanced standing students or are in the process of making that change.

Students with partially completed degrees, having accumulated a great deal of debt and are very interested in nursing careers, but didn't have an efficient way to earn the prerequisite science coursework. GCU created the science courses and some other GenEd courses so they could be delivered online in eight weeks. Students can access these courses from anywhere in the world. There are start opportunities almost every week. These courses have been made very affordable, are taught by experienced faculty. Class sizes are low and there is a tremendous amount of academic support, including an artificial intelligence project which provides students 24/7 access to tutoring.

Since implementing these courses, we have already enrolled 17,085 students. We have a waterfall report that allows us to know how students are progressing through their prerequisite courses and when they will be eligible to start at one of our ABSN sites. Graduation rate of students who successfully enter the ABSN programs is in the mid-80s and the first-time pass rate on the NCLEX exam is approximately 90%. We now have an extremely efficient way to get students academically eligible and prepared to enter the program.

These positive results, we anticipate, will continue. There has never been greater interest among potential students for entering the health care professions and specifically nursing. But because of the low unemployment rate, the interest has shifted to these younger students who haven't accumulated a great deal of debt, completing the bachelor's degree in another area and are underemployed. Nearly all our partners have responded positively to the change needed to serve the advanced standing students.

Our goal is still to have 80 locations with our partners, with 40 of them – with 40 of the locations being GCU locations. In 2025, we will open five additional sites including a second location in the Boston area in the fall, another site in New York City, and three GCU sites in 2025. One in Albuquerque, New Mexico, which was opened in the first quarter of 2025, one in Lake Mary, Florida, near Orlando, which was opened in the second quarter of 2025, and one in Inglewood, Colorado, south of Denver, which will open in the fall. The addition of GCU's three new site openings will bring its ABSN location total to 11.

We are also expanding our programmatic offerings with our hybrid partners by adding a graduate nursing program with seven specializations with Northeastern University, including Masters and Doctoral level degrees, which started this summer at several East Coast locations. A hybrid Occupational Therapy Bridge to Masters program to the already successful St. Kate's Occupational Therapy Assistant Hybrid Program, an online Health Science degree with Utica University, and GCU will launch a Bachelor of Science in Occupational Therapy Assistance Program, and a Speech-Language Pathology program in 2025 at the Phoenix West Valley location. Adding additional programs at our hybrid locations is an important component to our business plan.

Fourth, the Center for Workforce Development at Grand Canyon University. In the 2022-2023 school year, we started 80 students in GCU's Electricians Pre-Apprenticeship Program in partnership with companies that are experiencing labor shortages in that area and are excited about hiring GCU's graduates. The program consists of four 4 credit courses and runs one semester. 212 students successfully completed the program in 2024-2025, including 11 in the Austin, Texas, hybrid location.

In fall 2023, we started GCU's Manufacturing CNC Machinist Pathway in partnership with companies that are experiencing labor shortages in that area. The program consists of four 4 credit courses and runs one semester. 33 students completed the program in 2024-2025 fiscal year. Those students attend for 20 hours a week and then work in the facility as a paid employee for 20 hours. At the end of the semester, they received a manufacturing certificate and became eligible for employment in Arizona's fast-growing manufacturing industry.

Students in GCU's Growing Engineering College are getting experience in this manufacturing facility, which is adding to their engineering education. Recently, this manufacturing company, owned and operated by a recent GCU graduate and housed in a GCU facility, bought a manufacturing company which has more than doubled its capacity and provides the opportunity to significantly grow the number of students involved in this program. GCU will also be rolling out two new two semester pathway programs. One is a construction general pathway starting in fall 2025, and one is a manufacturing general pathway starting fall of 2026.

I started out by talking about the relevant programs and creative delivery models that GCE has implemented with its 20 partner institutions. In the seven years since, GCE has become a service provider, it has helped its partners accomplish the following. In that time, GCE has helped Grand Canyon University graduate 200,506 students, 54,622 in education, including 26,085 first-time teachers, at a time when teacher shortages have created a national crisis, 52,478 in nursing and health care professions, including 3,138 pre-licensure nurses at a time when there is a huge shortage of nurses, 41,122 in the College of Humanities and Social Sciences, including thousands in counseling and social work where there are also huge shortages. The College of Business has become one of the largest business schools in America and has produced 35,168 graduates. College of Science, Engineering and Technology has grown by 219% and provided 8,702 graduates. The Doctoral College, Honors College and College of Theology also continued to grow.

In addition, GCE has helped its other partners graduate 19,320 pre-licensure nurses and occupational therapist assistants. The numbers that I have just cited have all happened in the seven years since the GCU GCE transaction and since GCE has become an education services provider. All of this has occurred while GCE paid $596 million in federal and state taxes. While state universities and community colleges pulled money out of the tax system, GCE has helped produce nearly 220,000 graduates while pouring millions of dollars into the system.

For those shareholders interested, we recently issued our 2025 Corporate Social Responsibility Report. The report is located at gce.com under Investors/Corporate Governance. We are very proud of the social contributions at the company in concert with its university partners and its employees make to our communities.

Before I discuss the financial results, I want to spend a few minutes talking about the regulatory environment. As I talked to investors, it seems like there is confusion about the impact that the Big Beautiful Bill that was passed earlier this summer will have on universities such as our partners. Although some universities might be impacted by the Big Beautiful Bill, our partners should see little to no impact in most of what is in the Big Beautiful Bill were things that I have endorsed for years.

I was very pleased that a Workforce Pell Grant Program was created. Our country needs more students going into programs such as what GCU is creating in its Center for Workforce Development. And the students in those programs should qualify for Pell Grants. I have also been a proponent of lowering loan limits at the graduate and professional level and giving universities more ability to limit what is borrowed by its students, all of which is in that Big Beautiful Bill.

All of our partners graduate programs are delivered either online or hybrid, and thus the tuition levels are significantly below loan limits. Most of the over-borrowing occurs because students take the entire difference between loan limits and the amount due for tuition and fees for living expenses, in a lot of cases, that extra borrowing is not needed as our partner students are working adults.

Reducing the amount available for living expenses will in most cases reduce the amount of debt, master's and professional students take on. Loan limits were not changed at the Bachelor's level, where they are already fairly low. I also believe the institutional accountability provision contained in the BBB is a much more appropriate way to analyze the value of higher education to students and taxpayers. We will not know the impact of this provision on our partner programs until ED releases information. But given GCU's low tuition rates and the high income obtained by graduates of our partners' nursing program, we do not expect any issues.

Service revenue was $247.5 million for the second quarter of 2025, an increase of $20 million or 8.8% as compared to $227.5 million for the second quarter of 2024. The increase year-over-year in service revenue was primarily due to an increase in partner enrollments of 10.3%, including an increase in GCU online enrollments of 10.1% and university partner enrollments at the off campus classroom and laboratory sites of 14%, partially offset by a decrease in revenue per student year-over-year, primarily due to contract modifications.

For some of our university partners in which the revenue share percentage was reduced in exchange for us no longer reimbursing the partner for certain faculty costs, which had the effect of reducing revenue per student and a slight decline year-over-year in revenue per student for online students due to the continued mix shift to students that have a slightly lower net tuition rate.

Operating income and operating margin for the three months ended June 30, 2025 was $51.8 million and 20.9%, respectively, as compared to $42.7 million and 18.8% respectively for the same period in 2024. Net income increased 19.1% to $41.5 million for the second quarter of 2025, compared to $34.9 million for the same period in 2024. GAAP diluted income per share for the three months ended June 30, 2025 is $1.48. As adjusted non-GAAP diluted income per share for the three months ended June 30, 2025 is $1.53, which is $0.16 above consensus estimates.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on our 2025 second quarter, talk about changes in the income statements, balance sheet and other items, as well as to discuss the 2025 guidance.

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

Thanks, Brian. Included in our Form 8-K filed with the SEC, we have included non-GAAP net income and non-GAAP diluted income per share for the three months ended June 30, 2025 and 2024. The non-GAAP amounts exclude the tax effective amount of the amortization of intangible assets of $2.1 million in the second quarters of both 2025 and 2024. And the tax effective amount of $1.1 million in severance costs recorded in the second quarter of 2024 related to an executive that resigned.

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 June 30, 2025 and 2024 is a $1.53 and $1.27 respectively.

Service revenue was higher than our expectations in the second quarter of 2025, primarily due to higher than expected enrollments in all three pillars. As we expected, revenue per student decreased slightly between years, as Brian discussed earlier. The second quarter operating margin was positively impacted on a year-over-year basis by the higher revenue, the contract modifications and the $1.1 million in severance costs recorded in the second quarter of 2024 related to an executive that resigned effective June 30, 2024, partially offset by additional spend for 2025 partner initiatives, but also due to the continued impact of significantly higher than expected benefit costs as a result of an increase in the number of high cost claims.

Our effective tax rate for the second quarter of 2025 was 24.5%, compared to 25.5% in the second quarter of 2024 and our guidance of 24.9%. The effective tax rate decreased year-over-year, primarily due to changes in state income taxes. As I will discuss in a minute, the second half effective tax rate will be impacted by the contributions made in lieu of state income taxes made in July of 2025 and higher state income taxes.

We purchased 259,271 shares of our common stock in the second quarter of 2025, at a cost of approximately $47.4 million and another 157,006 shares were repurchased since June 30 of 2025. The number of shares beginning at the tail end of June was more than we anticipated and was a result of the decline in our stock price. We have $156.9 million remaining available as of today under our share repurchase authorization. The board and the company intend to continue using a significant portion of its cash flows from operations to repurchase its shares.

Turning to the balance sheet and cash flows, total unrestricted cash and cash equivalents and investments as of June 30, 2025 were set $373.9 million. GCE CapEx in the second quarter of 2025, including CapEx for new off-campus classroom and laboratory sites was approximately $8.6 million or 3.5% of service revenue. We continue to expect CapEx for 2025 will remain comparable with prior year at between $30 million 40 million.

Last, I would like to provide color on the updated guidance we have provided in our 8-K filed today. As a reminder, the guidance that we provided in the Outlook section of our 8-K filed today is GAAP net income and diluted income per share with the components to adjust the GAAP amounts to non-GAAP as adjusted net income and non-GAAP as adjusted diluted income per share.

We have updated full-year 2025 guidance to include the second quarter revenue and earnings beats, have increased the third quarter revenue and earnings projections by increasing both the low end and the high end of our previously recorded guidance due to the higher than expected enrollments at June 30, and our current expectations for the second half of the year.

For the fourth quarter, we have narrowed the range between the high and low-end, producing an increase in revenue at midpoint. We continue to anticipate the new online enrollment will be up year-over-year in the mid to high single digits in each quarter during the second half of 2025. And that total online enrollments will remain in the high single digits over the prior year.

Total online enrollments will continue to be pressured by increasing graduations and a continued decline in re-entries, students returning to school after break, due to the high retention rates. There could be some upside to our second half projections given the strong trends, but given the tough comps, we believe these estimates are appropriate. We have slightly raised our expectations for the hybrid pillar due to slightly higher than expected hybrid enrollment. We continue to anticipate new and total student growth rates in the hybrid pillar to be in the mid to high-teens with a revenue growth rate for the hybrid pillar as a result of the enrollment growth continuing to be partially offset by the changes made to the contracts for the university partners that are no longer being reimbursed for faculty costs.

We remain optimistic the fall ground traditional new enrollment will be in the upper half of our original guidance, up approximately 10% year-over-year, but total enrollment expectations have been lower slightly at midpoint, as we have decreased the high-end and increased the low end of the range, based on current registrations, current new enrollment trends and the higher than expected summertime graduations, with approximately one month until the start of the fall semester.

As Brian mentioned, ground traditional summer school enrollment exceeded our expectations, which, along with the higher than expected online and hybrid enrollments, resulted in higher than expected revenue in the second quarter and our expected higher revenue in the third quarter. It appears approximately 300 of the higher than expected ground traditional summer school enrollment was related to students that we had expected to finish their program in the fall, but instead accelerated their coursework and finished to the summer. Thus, revenue for these students was accelerated from the fourth quarter to the second/third quarters.

Retention for non-graduating students appears as if it will be in line with our expectations. As a reminder, the ground traditional campus starts one day earlier in 2025 than in 2024, which will have an impact of moving $1.4 million in revenue from the fourth quarter to the third quarter in comparison to prior year.

On the expense side, as you recall, after a pause on certain investments primarily in head count in the first nine months of 2024, we ramped up hiring and other spend in the fourth quarter of 2024 and anticipate this continued investment to accelerate in the second half to meet the growth goals of our partners. We also continue to absorb significant increases in both benefit costs and technology services, with benefit costs significantly exceeding our expectations in both the first and second quarters. Our revised guidance assumes these trends continue in the second half of the year.

As it relates to the hybrid pillar, we will continue to incur additional costs for the new hybrid locations that have opened in 2024 and 2025. But we are experiencing increased site level profitability due to the increasing enrollments.

Lastly, we continue to anticipate an increase in legal fees again in 2025 over 2024, as we have a couple of lawsuits filed in prior years that are expected go into the discovery phase and/or trial during 2025. General and administrative expenses was increase in the third quarter of 2025 by $5 million for the contributions in lieu of state income taxes made in July 2025. These dollar-for-dollar tax credits reduced our Arizona State tax liability for the amount of donation and support private school education through contributions to school tuition organizations, which then provide scholarships to students attending private high schools in Arizona. Roughly 75% of the tax credit is recognized as lower income tax in the third quarter, and the remaining 25% is recognized as lower income tax expense in the fourth quarter. Contributions of $4.5 million were made in July of 2024.

We are estimating that interest income will continue to be down year-over-year due to the declining cash balances due to more aggressive stock buybacks and a declining interest rate environment. We have lowered interest income slightly for the rest of the calendar year due to the greater than expected stock buybacks during the first and second quarters, while decreasing the number of weighted average shares outstanding.

We have lowered the effective tax rate for these last two quarters of 2025 to 20.6% and 22.8%, with a full year tax rate of 22.3% due to the $5 million of contributions made in lieu of state income taxes made in July. Our effective tax rate for the third and fourth quarters would have been 24.7% and 24.1%. And our full year tax rate would have been 23.6% if the contributions had not been made.

The effective tax rate continues to be impacted by higher state taxes, as we continue to add new sites in states outside of Arizona, which have higher state tax rates and other factors. As mentioned earlier, our weighted average shares guidance has decreased slightly for each of the two remaining quarters due to the greater than expected purchases beginning in June.

The board continues to authorize the repurchase of shares as it believes the stock remains undervalued based on the metrics that uses to evaluate, including the ratio of enterprise value to adjusted EBITDA and the free cash flow yield rather than multiples of other education companies. As – although, we can be viewed as being in the same sector, there are few, if any, appropriate comps.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will conduct the question-and-answer session. [Operator Instructions] Our first question comes from Jeff Silber with BMO Capital Markets. Your line is open.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Thanks so much. I wanted to focus on the accelerating enrollment growth in the quarter. Brian, in your remarks, you highlighted a number of areas that drove that. But we really saw a pickup between 1Q and 2Q. Are – maybe one or two of those, can you highlight specifically for that acceleration?

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

A

Well, some of the things that we're doing, especially around teacher education, nursing and health care programs, are really kicking in. The growth of our other programs are pretty much as we expect the lead generation and what we're getting from converting those leads into starts into our programs are pretty much what we expect. But what we're doing in teacher education with paraprofessionals is really adding significantly to that increase. We've got – we just keep signing contracts with public schools that want us to help them produce teachers. And one of the big targets is the paraprofessionals. And so, we're getting above average increases in that. That's one.

Number two, the pre-rec courses. Those courses that students are taking in order to get ready academically for the health care program or health care career, specifically nursing, those things are coming at us in a higher rate than expected. And then thirdly, and I referred to this a number of times in a – but the number of students in the country that are wanting to go to college post-high school graduation but are content to do it from home, and that number is really increasing now, our online enrollments.

We're one of the few universities that have fully online programs. We have over 300 of them. And so, if you want to be an accountant, for example, and you earned 30 or 40 college credits through dual enrollment or other means while you were in high school, 2 and 2.5 years, you can complete a baccalaureate degree in accounting, incur very little debt, and the students are starting to wake up to that opportunity. There are students who are staying home and entering our Teacher Ed program, our other business programs. And so, it's – I would say it's those – it's the pre-rec courses in a science area. It's the paraprofessional growth in producing teachers. And then it's the uptick of students that graduated in the spring and are deciding to do college from home that have really helped boost that – those online enrollments.

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

The other thing, Jeff, I'd like to remind investors is that although GCU has weekly starts, we are somewhat seasonal in that the third quarter is by far the largest start quarter of the year, followed by the first quarter with the second and fourth being about the same. And so, I give that color. The second quarter was outstanding significantly over last year. But if we do mid to low-end of high single digits starts in the third quarter, that will be a very, very strong quarter. So, I don't want people to come back and be concerned about a slowdown in the third quarter. If it's in that 5%, 6%, 7% year-over-year range, that is a very big raw growth year-over-year, if that happens.

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

The momentum is going to continue. It's just the comps change.

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

Got it. Yeah. No, that's very helpful. Thank you for reminding us of that, Dan. Maybe I can shift gears to regulatory. I know, Brian, in your prepared remarks, you said, some of the changes on the loan side should have little to no impact. But I wanted to focus a little bit more specifically on the changes on the graduate loans. I know Grand Canyon, the campus is mostly undergrad. I know you have a lot of grad students online. But more curious for your partners. Are there a lot of grad students in your hybrid programs? And there could – could there be an issue where those programs might be a little bit more expensive compared to the new campus? Thanks.

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

No. 90% plus of our partner programs are at the undergraduate level. Marquette has a master's degree program that's pretty well attended. I think we have one other one that sits at the master's degree level...

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

Northeastern [indiscernible] (00:45:43)

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

Northeastern is opening a master's degree program at one of its locations. But no 95%-plus are at the undergraduate level earning a Bachelor of Science and nursing degrees.

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

Okay, that's really helpful. I'll get back in the queue. Thanks so much.

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

A

Thank you.

Operator: Our next question comes from Steven Pawlak with Baird.

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

Q

Yeah. Thank you. I guess maybe just [ph] jumping off (00:46:12) on that point. Brian, you talked about the regulatory environment, sort of – or the changes from the bill affecting other providers in the industry? I guess, what are you expecting or maybe things to look out for in terms of a changing competitive response? You've talked about increased scholarships, things like that in prior cycles. So any sort of comment on maybe what you're expecting from a competitive standpoint?

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

A

Yeah, I mean, it is – it's interesting. I mean, locally, we – locally, I mean, even in the Southwest and in the west in California, I think you're referring to really competitive offers made for traditional students coming to campus. It was in the mid-summer or beginning summer, mid-summer that in the last couple of years, we saw a lot of what we thought were crazy offers made to students.

And when not just current students – president at [ph] U of A (00:47:06), but the previous president, one of his explanations for why they had a fiscal crisis down there and we compete against the state universities was that, there were just too many students who were going to school that weren't paying. And so, we haven't seen that nearly as much this year, as we have seen in prior years, which is partly why we're saying we are fairly confident that we'll be 10% up in new enrollments on our ground campus. The – there have been some offers, but not nearly we would have spent in the last number of years. I think that thing has caught up to universities and I'm really happy that we didn't respond to that.

Our scholarship program is set in stone and is based upon grade point average. And we don't vary a lot from that. We've got a tremendous offering that returns a tremendous return on investment for our students. Almost 50% of our students on our campus now are graduating in three years, which really reduces the amount of money they have to borrow. And so, I think we've stayed in the right place from that standpoint and we're benefiting from it now.

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

A

And again, a reminder to investors that there were no material changes to bachelor's level loan limits. And so, you probably won't see any significant change there if there was changes to the master's and professional. But as Brian said, most of the master's programs out there today are significantly below even the revised loan limits. It will reduce living expense distributions to students potentially, but shouldn't preclude students being able to pay for graduate level tuition.

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

Q

Understood. And just – I hear your comments from Jeff's other question about accelerating enrollment growth and sort of the tougher comps in Q3. But Dan, you also talked about sort of potential for upside still. So, maybe just in terms of balance, what are kind of maybe the upside drivers?

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

A

Well, it's just can we continue to exceed our own internal goals on new enrollments in the second half? Those are pretty aggressive goals given the tough comps, but that's where the upside would get is if we exceed our own internal goals in the third and fourth quarter from a new – online new start perspective.

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

Q

Understood. Thank you.

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

We have reached the end of our second 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: Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.