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EDITED TRANSCRIPT

LOPE - Q4 2017 Grand Canyon Education Inc Earnings Call

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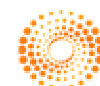

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Grand Canyon Education Fourth Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to turn the conference over to Brian Roberts, General Counsel. Sir, you may begin.

Brian M. Roberts - *Grand Canyon Education, Inc. - SVP, General Counsel and Company Secretary*

Thank you. Speaking on today's call is our Chairman, President and CEO, Brian Mueller; and our CFO, Dan Bachus.

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, and our current report on Form 8-K.

We undertake no obligation to provide updates with regard to forward-looking statements made during this call. We recommend that all investors review these reports thoroughly before taking a financial position in Grand Canyon. And with that, I'll turn the call over to Brian.

Brian E. Mueller - *Grand Canyon Education, Inc. - Chairman, CEO, President and President of Grand Canyon University*

Good afternoon, and thank you for joining Grand Canyon University's Fourth Quarter 2017 Conference Call. In the fourth quarter of 2017, enrollments grew by 10.2% and revenues grew by 10.9%. New working adult students attending our online campus grew in the mid-single digits year-over-year. Operating margins are at 33.7% for the quarter and 29% for the year.

I want to, again, thank our faculty and staff for a great year. As you know, our long-term goals are to grow enrollments 7% to 8% on an annual basis. 6% to 7% will come from online enrollments and the rest from our ground campus.

Revenues will grow 8% to 9% without any anticipated tuition increases, primarily as a result of continued retention increases, traditional campus enrollment becoming a higher percentage of the total and the growth of ancillary revenues through the new businesses. The room and board payments of ground students continue to drive up the annual revenue per student number. This academic year, 2017/'18, we have approximately 19,000 students on our ground campus. Recruitment for the 2018/'19 academic year is going as expected. Last year, at this time, we had 23,914 applications. This year, we have 26,324 applications, which is up 10%. We expect about 7,250 new students, which would bring the total students on campus to 20,500. The average incoming high school GPAs of the new accepted students is 3.58. 28% are in science, engineering and technology; 16% are in humanities and social sciences; 22% are in nursing and healthcare professions; 20% in business; 6% in education; 5% in fine arts; and 3% in theology.

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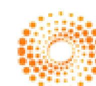

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We expect our online campus to grow between 6% and 7% on an annual basis. We manage the quality of the online student body by keeping the percent of graduate students plus our RN to BSN students at 60%. This has allowed us to keep quarter-over-quarter retention rates in the low 90s, which is causing an increase in graduation rates.

Managing the quality of both student bodies has been a very important part of our strategy. I will talk in a minute about our not-for-profit strategy, which I want to make clear, has nothing to do with current regulations imposed by the Department of Education on for-profit institutions. Our 90/10 number is now down to 71.5%. None of our programs failed the gainful employment guidelines mainly because of our low tuition rates. Tuition on our traditional campus hasn't been raised in 10 years, which includes our upcoming 2018/'19 academic year, and there was only 1% increase in the last 5 years on our online campus. We anticipate the cohort default rate on student loans for the most recently completed cohort will be approximately 6.5%.

As we previously discussed, Grand Canyon University has submitted to the HLC, an application for approval to affect the sale of GCU to a not-for-profit entity. This application updated the application filed by GCU during the 2015/'16 year, seeking approval of a similar transaction, as a means of enabling GCU to conduct itself as a traditional nonprofit University, consistent with its history and on a level playing field with other traditional universities with regards to tax status, and among other things, the ability to accept nonprofit contributions, pursue research grant opportunities and participate in NCAA governance. The prior application proposed a transaction that would have involved the sale of the company's academic-related assets, real estate and related intangibles to a newly formed nonprofit corporation, new GCU. Following this sale, the nonprofit corporation would have operated the University while the company would have continued to operate as a third-party provider of services to new GCU, and potentially, in the future, to other universities.

The HLC Board of Trustees denied this application, in part, based on its view that its accreditation requirements did not allow for the type of shared services arrangement that GCU has proposed.

In May 2017, the company became aware that the HLC was considering adopting new accreditation guidelines that, if complied with, would allow for HLC accredited institutions to engage in shared services arrangements. Following further engagement with the HLC and the HLC's adoption in November of 2017 of these new guidelines, GCU submitted to the HLC the updated application, seeking approval to affect the sale of the GCU assets to a nonprofit entity in a manner described above, and therefore, for new GCU to enter into a shared services agreement with the company. The final form of this application was filed on December 18, 2017. The company expects the HLC to act on this application at the next HLC board meeting -- HLC board which meets later this week.

As currently contemplated, the proposed transaction would involve the following: the company would sell to new GCU academic and related operations and assets sufficient for new GCU to achieve status as an HLC accredited institution. The purchase price for the transferred assets would be determined following receipt of third-party appraisals and subsequent negotiation and would be paid in the form of a long-term note between the company and new GCU, subject to customary commercial credit terms. GCU's current faculty, academic leadership and related staff would become employed by new GCU and new GCU would be governed by the current institutional Board of Trustees of GCU. The company would retain all other employees and assets necessary to perform the third-party services contemplated by the sale, including an office complex where most services-related personnel are currently located. The company and new GCU would enter into a long-term master services agreement, pursuant to which, the company would provide identified technological, marketing, promotional, financial aid and other support services to new GCU in return for an agreed-upon share of new GCU's tuition and fee revenue. The revenue share between the 2 entities remains subject to completion of a transfer placing study and subsequent negotiation, but is expected to be comparable to other shared service arrangements currently in place in the higher education marketplace, and to reflect the level of services that the company would be providing to new GCU. The terms of the master services agreement would comply with the 2017 HLC guidelines. It is very important to note the following: while an application for approval of the proposed sale has been submitted to HLC, along with draft documents that, if the application is approved, would govern the terms of the sale and the shared services arrangement.

Definitive agreements between the company and new GCU have not been signed and key terms remain subject to analysis, negotiation and final agreement between the company and new GCU.

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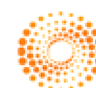

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As such, neither the Company nor new GCU is bound to move forward with the sale and neither party will move forward unless and until definitive agreements are executed. The company does not expect to execute any definitive agreements until the HLC process has concluded. The company and GCU are continuing to review various federal and state regulatory issues that could impact the liability of a transaction. That review is not completed at this time. The company does not expect to execute any definitive agreements until these issues have been resolved and any necessary regulatory approvals have been received.

The HLC previously denied the application for the similar transaction that was made in 2015/'16. While the company believes that the current proposal addresses any concerns noted by the HLC in its denial and complies with the new 2017 HLC guidelines, no assurance can be given that HLC will approve this application that the parties will agree on the final key terms of the sale or that the sale will be consummated. However, we are encouraged by the fact that the response to our updated report was very positive, that our proposed transaction and structure is almost identical to many others in the industry and is very similar to the Purdue and Kaplan proposal, which HLC is also reviewing at this time. As a result, the company has continued its preparation to take various steps including allocation of employees to new GCU, financial modeling and asset transfer processes that would be necessary to complete the transaction.

Now turning to the results of operations. Net revenues were $271.4 million in the fourth quarter of 2017, an increase of $26.7 million or 10.9% from the $244.7 million in the prior year period.

Operating margin for quarter 4 2017 was 33.7% compared to 31.3% for the same period in 2016. Net income was $68.3 million for the fourth quarter of 2017, compared to $48 million in the prior year period.

After-tax margin was 25.1% compared to 19.6% for the same period in 2016. Instructional cost and services grew from $102.1 million in the fourth quarter of 2016 to $108.9 million in the fourth quarter of 2017, an increase of $6.8 million or 6.7%. This increase was primarily due to increases in employee compensation and faculty compensation due to the increase in number of staff to support the increasing number of students attending the University, and increased benefit cost between years. In addition, we continue to see an increase in occupancy costs, including depreciation and amortization as a result of us placing into service additional buildings, especially laboratory intensive STEM buildings to support the growing number of ground traditional students.

As a percent of revenue, IC&S decreased 160 basis points to 40.1%, primarily due to our ability to leverage our instructional cost and services expenses across an increasing revenue base. Bad debt expense decreased 50 basis points due to the continued improvement with collections, especially with our ground traditional students. Admissions advisory and related expenses as a percentage of revenue decreased 60 basis points to 12.5% from 13.1%, primarily due to our ability to leverage our admissions advisory personnel across an increasing revenue base. Advertising expense as a percent of net revenue increased 10 basis points from 8.6% in quarter 4, 2016 to 8.7% in quarter 4, 2017.

General and administrative expenses as a percentage of revenue decreased 20 basis points to 4% in quarter 4, 2017, from 4.2% in quarter 4, 2016. Last, I would like to provide a little color on the guidance Dan will be providing later. As you know, one of our long-term goals is to grow margin slightly year-to-year. We have exceeded our expectations in this area over the past few years. As a full taxpayer, the Tax Cuts and Job Acts -- Jobs Act will lower our corporate federal tax rate significantly. Like other corporations, we have decided to reinvest a portion of the savings into our employees through bonuses, a higher 401(k) matching contribution and the higher medical benefits contribution. We will also invest in additional faculty, primarily in the College of Engineering and Technology. Margins will also be impacted by a significant increase in property taxes between years. The increase in the Arizona minimum-wage and the revenue shifts that Dan will discuss, these will put slight pressure on our operating margins in 2018.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on 2017 fourth quarter, talk about changes in the income statement, balance sheet and other items as well to provide 2018 guidance.

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

Thanks, Brian. Revenue exceeded our expectations in the fourth quarter of 2017 due to higher than anticipated enrollment. Revenue per student also increased between years due to an increase in ancillary revenues, resulting from the increase in the percentage of traditional students living

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on campus. This increase was partially offset by 1 less day of traditional campus revenue in the fourth quarter as compared to 2016, due to a shift in the timing of a residential traditional campus start date. Online revenue per student was up slightly year-over-year due to a positive shift in the timing of the Christmas break, such that the break was later in 2017 than it was in 2016. Scholarships as a percentage of revenue decreased from 18.7% in Q4 2016 to 18.3% in Q4 2017, due primarily to a decrease in ground scholarships as a percentage of revenue year-over-year.

Bad debt expense as a percentage of revenue decreased 50 basis points from 2.4% for Q4 2016 to 1.9% in Q4 2017, primarily due to continued improvement with collections, primarily with our ground traditional students.

Our effective tax rate for the fourth quarter 2017 was 25.5% compared to 37.2% in the fourth quarter of 2016. This decrease was primarily due to the revaluation of our deferred tax assets and liabilities as a result of the Tax Cuts and Jobs Act, which was signed into law on December 22, 2017. The act reduces the corporate federal tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. Therefore, the University's net deferred tax liability was required to be revalued as of December 22, 2017, resulting in the University recording at $10.7 million income tax benefit. In addition, excess tax benefits of $1.1 million from share-based compensation awards vested or settled in the fourth quarter of 2017 was recognized.

Excluding the revaluation of the deferred tax assets and liabilities, our effective income tax rate would have been 37.2%, which was slightly below our estimated 37.4%. We repurchased 17,230 shares of our common stock in the fourth quarter of 2017 at a cost of approximately $1.5 million. We had $97.7 million available under our share repurchase authorization as of December 31, 2017.

Turning to the balance sheet and cash flows. Total cash, unrestricted and restricted, and short-term investments at December 31, 2017, was $337.3 million. Accounts receivable net of the allowance for doubtful accounts was $10.9 million at December 31, 2017, which represents 4.1 days sales outstanding compared to $9.5 million or 4 days sales outstanding at the end of the fourth quarter of 2016.

CapEx in the fourth quarter 2017, excluding our offsite development of $0.2 million, was approximately $38 million or 14% of net revenue. Included in 2017 CapEx of $113.6 million was $32.5 million of land purchases adjacent to our campus. Excluding these land purchases, CapEx for 2017 was $81.1 million, which was in line with our expectations.

We elected not to renew our revolving line of credit of $150 million, which expired on December 31, 2017. If the proposed transaction that Brian discussed earlier proceeds, this transaction would trigger an obligation to repay all amounts outstanding on our credit facility, which totaled $66.5 million at December 31, 2017.

As Brian discussed, our cash basis 90/10 amount was 71.5% for 2017, down from 72.3% in 2016. We believe this decrease is primarily due to the continued growth in our ground traditional student body, which has a much lower 90-10 ratio than our working adult students.

Last, I would like to provide color on guidance we have provided for 2018. As you have probably noticed, we have again provided estimates for each quarter of 2018. We do this because our financial results continue to become more seasonal due to the significant growth of our ground traditional campus and due to the shift in the start dates and breaks between years. A large percentage of our ground students only attend class between the end of August and the end of April. However, a large percentage of the ground traditional campus costs are fixed and these costs continue to grow due to our anticipated growth. We must hire additional support staff to service the increasing student body in the spring or summer of each year so that they are trained and can start working with the soon-to-be students when these students are ready to be registered for the fall semester.

Our enrollment guidance assumes mid- to high single digit online new start growth. Our guidance assumes a slight increase in retention and an increase in graduates between years of approximately 13%. The significant retention gains we have seen in recent years and the continued shift to a higher percentage of graduate students continues to result in year-over-year increases in graduates that exceed our total enrollment growth rate. We estimate that our total ground enrollment, which is ground traditional and professional study students, to be 17,400 in the spring, 6,300 in the summer, 20,500 in the fall and 20,300 at year-end. As we have discussed previously, enrollment growth rates on ground are being impacted by a high percentage of our students that are graduating in less than 4 years.

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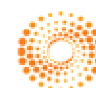

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Our revenue guidance assumes no tuition price increase. We anticipate that revenue per student will continue to grow year-over-year as a result of the growth of our ground traditional student body. However, revenue per student will be impacted in 2018 by changes between 2017 and 2018 of when the traditional campus semesters begin and end and when online breaks occur. The spring, summer and fall semesters start 1 day earlier in 2018 than in 2017, pushing revenue from Q2 to Q1, from Q3 to Q2 and from Q4 to Q3. As was discussed earlier, the 2017 break had a net impact of pushing 5 days of revenue from 2018 to 2017. And the 2018 Christmas break has a net impact of pushing 2 days of revenue from 2018 to 2019. We estimate the effects of these changes are $100,000 of more revenue in Q1 in comparison to 2017, $1 million of less revenue in Q2, $1.1 million of more revenue in Q3 and $1.6 million of less revenue in Q4. The net loss of revenue of $1.4 million is related to the timing of the online Christmas break. In addition, revenue per student is being negatively impacted in 2018 by the growth of the number of our doctoral students that are in the dissertation part of their program. We generate significantly less daily revenue for these students. We estimate that the impact of the higher number of students in dissertation is a 30 basis point decrease in revenue per student.

On the expense side, we're forecasting a 50 basis point decline in the operating margin, excluding the contribution made in lieu of income taxes. We are forecasting instructional costs and services as a percentage of revenue to be up 90 basis points year-over-year. This increase is related to the investments Brian mentioned earlier due to the impact of the higher number of dissertation students and the increased occupancy expenses, primarily higher property taxes.

Bad debt is projected to be flat year-over-year. We anticipate that advertising will also be flat year-over-year, while admissions advisory and related expenses and G&A will be down slightly year-over-year. Interest expense net of interest and other income will be approximately 0. Our guidance this year assumes an effective tax rate, excluding contributions made in lieu of paid income taxes to be 21.7% in Q1, 24.4% in Q2, 24.6% in Q3 and 25.3% in Q4, which results in an annual effective tax rate of 23.9%. The lower rate in Q1 is due to the majority of restricted stock vesting occurs in that quarter each year. If a contribution in lieu of state income taxes is made in the third quarter of 2018, it will have the effect of increasing general and administrative expenses and decreasing income tax expense. Although we might repurchase additional shares during 2018, these estimates do not assume repurchases.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Alex Paris with Barrington Research.

Alexander Peter Paris - *Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst*

I had a question in regard to newer programs and just can you kind of give us a sense of what were the total programs, perhaps in 2016, at the end of 2017 and what your expectations are for total programs at the end of 2018? So in other words, how many new programs are expected to launch this next year and how many were launched this past year? Maybe some color around that.

Brian E. Mueller - *Grand Canyon Education, Inc. - Chairman, CEO, President and President of Grand Canyon University*

So we started this academic year, being in September, with about 220 programs, certificates, et cetera. And our plan is to [add] about 20 this year. So if we begin the next academic year, we'll have about 240 programs. Does that help?

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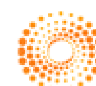

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Alexander Peter Paris - *Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst*

Yes, that helps. And then my other question was just kind of, as I was going across the industry, just observing online enrollments, and for the most parts, your peers have had choppy results or it's been spotty, at best. Can you just talk about the strength in this area that you're seeing and I guess, what makes the value proposition that much better at Grand Canyon Education to which you're able to continue to grow online enrollments?

Brian E. Mueller - *Grand Canyon Education, Inc. - Chairman, CEO, President and President of Grand Canyon University*

I think there are 3 things. One, we have been very diligent, I think, about making sure we're adding programs that are in areas that will be a benefit to people, help them gain promotions and start new careers. And so the 22 -- 20 new programs we will start this year is down from the number we've started in previous years. And so new programs is a significant part of it. We're attracting people because they believe that the investment in the degree they earn here is going to pay off in a new career or job, et cetera. So I think that's one. Secondly, we've been able to keep our tuition rates low, and so that has helped significantly. And then the third one is, whether this is right or wrong, it's just very difficult to be in this space without having a brand really in a traditional university in a traditional campus that's rooted in a physical location. It's very, very difficult. In 2008, I believe that this whole thing, because the recession was going to change and because we lost revenues, that universities would get through the state system and because private universities were seeing their endowments shrink that revenue sources would be sought, and they have been. There's 1,000 private and state universities now that have gotten into this business, so it's a fragmented industry as compared to what it used to be. We've had the advantage of having been in the industry for 30 years, and so we've gotten a lot of advanced capabilities around delivering education online. We don't need a service provider, which helps us keep tuition low. And we've had the good fortune of building a very strong university brand based upon what happened in our traditional campus, Phoenix, Arizona. Arizona is very different than, for example, California, where there are 70 private universities. We've kind of burst on the scene here in an environment where there are only 3 state institution brands, and while they're very good universities, really good universities, we were able to carve out a niche here because we used to lose thousands of students on a yearly basis that would go out of state to private universities that had a religious affiliation. We're keeping them here now. That's helped build the brand of university, which has really helped attract online students. They want to be a part of what's happening here.

Alexander Peter Paris - *Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst*

And if I may reroute back to the first question. Just in regards to the 20 new programs for this next year, what is the mix between graduate versus STEM programs?

Brian E. Mueller - *Grand Canyon Education, Inc. - Chairman, CEO, President and President of Grand Canyon University*

Well -- STEM, graduate versus undergraduate is probably 70% graduate and more than 50% of the programs are in STEM-related areas, whether graduate or undergraduate.

Operator

Our next question comes from Peter Appert with Piper Jaffray.

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

So Brian, you mentioned that the HLC is going to meet later this week. How soon do you expect to hear from them after the meeting?

Brian E. Mueller - *Grand Canyon Education, Inc. - Chairman, CEO, President and President of Grand Canyon University*

We just heard yesterday that it could be up to 2 weeks before we hear officially what their -- what the result of the vote is.

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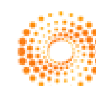

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Peter Perry Appert - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

And what -- would it be -- what are the range of possibilities? Is it a yes-no thing? Could there be contingencies? What might you expect to hear from them?

Brian E. Mueller - *Grand Canyon Education, Inc. - Chairman, CEO, President and President of Grand Canyon University*

Well, our range includes yes only. They might have a different range. Yes, I guess the range is -- it could be yes, it could be no or it could be we're going to kick it down the road. It would be difficult for us to believe it would be the last 2, because the thing is so similar to what is going on everywhere in the industry. I mean, when you become familiar with what -- how this thing ends up, it's going to be so similar to what already exists that you'll be surprised how similar it is.

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

Got it. And then you had mentioned, Brian, beyond HLC, some other approvals were needed. Can you just outline what those are and how high those hoops are that you need to jump through?

Brian E. Mueller - *Grand Canyon Education, Inc. - Chairman, CEO, President and President of Grand Canyon University*

Yes. DOE and the IRS and state office.

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

And do you envision any particular difficulties with those?

Brian E. Mueller - *Grand Canyon Education, Inc. - Chairman, CEO, President and President of Grand Canyon University*

No.

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

Got it. This is for Dan. The thought process on -- I mean, you bought a tiny amount of stock here in the fourth quarter, is there anything behind that? You've obviously not been major buyers of shares historically.

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

Yes, we put a purchase plan in place a while back that triggers buys if certain thresholds are met. And when those thresholds were met, we did buy. And -- but fortunately, unlike the market as a whole, our stock has been less volatile and thus we just haven't triggered those thresholds.

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

Got it, okay. And then cap spending, I'm sorry if I missed this, did you give a number for '18, Dan?

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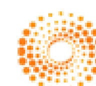

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Daniel E. Bachus - *Grand Canyon Education, Inc. - CFO*

Yes, tax rate. I gave a number not only obviously for the year but for -- by quarter.

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

I'm sorry, not tax rate, cap spending.

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

Oh, I'm sorry. Cap spending? I didn't specifically, but it's consistent with what we've talked about in the past. It'll be probably around $120 million. So I appreciate you asking that question. We -- as we set out a few years ago, we thought we'd average about $100 million a year, excluding any land purchases adjacent to the campus. This year was roughly $80 million as we thought and so we anticipate next year will be about $120 million, where we've got 2 dorms under construction, we have a new classroom building under construction and we have a new parking garage under construction, so -- and then some miscellaneous other stuff, but that, we believe, will approximate $120 million.

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

Got it. And still the 100 -- so like, '19 would be $100 million, plus or minus?

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

Yes. Yes.

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

And then last question for me. The -- you've explained the thought process around margins contracting a little bit. I'm just wondering about, Brian, your longer-term thought in terms of the appropriate margin leverage for the business, sort of constant word is, is that the appropriate target to think about? Or do you think there is still some basis for it to move gradually modestly higher?

Brian E. Mueller - *Grand Canyon Education, Inc. - Chairman, CEO, President and President of Grand Canyon University*

Yes, I think, modestly, we've been seeing 20 to 30 basis points on an annual basis. And I think for the most part, we'll be able to do that.

Operator

Our next question comes from Jeff Meuler with Baird.

Jeffrey P. Meuler - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Can you just walk me through kind of the process and the timeline for -- I guess setting up a third-party board for the not-for-profit university? Like does that start as soon as you hear the HLC decision and what does that process involve?

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

Well, currently we have 2 boards. The university has a Board of Trustees that's responsible for overseeing the academic part of the university and obviously the public company has a publicly -- a public board. And so we already have the 2 boards. And those boards, if this transaction is successful, those 2 entities will separate, as will the 2 boards. But there is -- other than Brian, there is no overlap between those 2 boards currently.

Jeffrey P. Meuler - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And what's the -- I guess have you started the third-party pricing studies and what level of dilution would be unacceptable to you as stewards of the ongoing for-profit entity to -- at which point, I guess, would be unacceptable or you would want to proceed with the transaction?

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

I think we will -- to your question about the studies and whatnot, we're hoping that, that will all be finalized very, very shortly. And once it does, we will timely release that information so that you guys can all get a good sense of how we're looking at this. We do want to manage the dilution. And so we're hopeful that there will be very little dilution as a result of the transaction. But until those things are finalized, we can't really talk in specifics.

Jeffrey P. Meuler - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay, fair enough. And then just on the online new enrollment growth in the quarter, I think it was mid-single digits -- which I know is consistent with the long-term framework. For full year '18, I think mid to high. Just any comments on the demand strength, the pipeline, and was there any unusual dynamics around year-end, just given the way incentive compensation or enrollment [adviser] compensation works in the industry?

Brian E. Mueller - *Grand Canyon Education, Inc. - Chairman, CEO, President and President of Grand Canyon University*

No. Things went better than expected as they have the previous 3 or 4 years, and we are staying very consistent with what we're saying we're going to be able to do the next 3 or 4 years. And so from our perspective, the demand is equivalent to what we are holding ourselves accountable to do.

Jeffrey P. Meuler - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And then just on the 2018 margin outlook. I don't know if you can bucket it out at all in terms of just headwinds that you would have been facing even without tax savings reinvestment. And I think there was a call-out on the Arizona minimum wage, would be one bucket. A second bucket would be changes that you're making to your expense structure that you would expect to sustain, like the 401(k) match or increased hiring. And then the third bucket would be the bonuses and any other expenses that you would expect to not recur beyond 2018.

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

Yes, I think absent the investments that we talked about, I think we would have probably guided to flat margins this year. So that gives you a sense of kind of where the other pieces fall out. Those other pieces, especially the revenue moves that were moved into '17 and ultimately moved into '19, I think would have had a little bit of pressure on that 20 to 30 basis point expansion, and then those other things, property taxes, the minimum wage increase, et cetera, would have -- were unique that would have put a little bit of pressure on our margins. But I think, without -- absent the investment, I think we would have done everything we could to at least hold the margins that we realized this year. Obviously, our margins this year were much higher than what we anticipated when we started the year. And I think to grow those, given these headwinds, would have been hard. But I think we would have been able to be at least flat.

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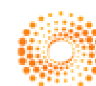

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Brian E. Mueller - *Grand Canyon Education, Inc. - Chairman, CEO, President and President of Grand Canyon University*

I'll add a little bit to that. The -- it's really, really important. This tax break came at a really critical time. We've got, I believe, the most experienced people in the industry that are working for us and people know that and it's very important that we keep them here. The people that build the technology, the people that build curriculum, the people that assess learning outcomes, the people that provide counseling. Many of us have worked together for over 20 years and that level of experience is very difficult to get, but a big reason for our success, which is why we're investing in those people. It's very important that we keep them here.

Brian M. Roberts - *Grand Canyon Education, Inc. - SVP, General Counsel and Company Secretary*

We've reached the end of our fourth quarter conference call. We appreciate your time and interest in Grand Canyon Education.

And if you still have questions, please contact either myself, Dan Bachus or Bob Romantic. Thank you for your time.

Operator

Ladies and gentlemen, this concludes today's conference. Thanks for your participation and have a wonderful day.

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