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Grand Canyon Education, Inc. (LOPE)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Grand Canyon Education's Second Quarter 2026 Earnings Conference call. At this time, all participants are in a listen-only mode. After the speaker 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 speaker, Mr. Dan Bachus, Chief Financial Officer. Please go ahead.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

Joining me on today's call is our Chairman and CEO, Brian Mueller.

Please note that many of our comments today will contain forward-looking statements that involve risk and uncertainties. Various factors could cause our actual results to be materially different from any future results expressed or implied by such statements. These factors are discussed in our SEC filings, including our Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. We undertake no obligation to provide updates with regard to the forward-looking statements made during this call, and we recommend that all investors review these reports thoroughly before taking a financial position in GCE.

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

Brian E. Mueller

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

Good afternoon and thank you for joining Grand Canyon Education's second quarter 2026 conference call. There's been major disappointment from investors with regard to Grand Canyon Education's stock performance over the last 12 months. This is true in spite of the fact that GCE's financial performance continues to be remarkably consistent as it has been for 18 years.

I want to start this call with the reason I believe this is happening. The following quote from a recent Wall Street Journal article summarizes what I believe. "Major industry shakeups occur when structural shifts such as technological breakthroughs, regulatory changes or economic pressures allow agile, fast-moving companies to displace legacy incumbents and seize market leadership. In the current economic landscape, market leadership is transitioning at a record pace due to chaos fatigue and rapid AI adoption. Legacy corporations are frequently losing ground to leaner technology-native competitors."

I believe it is taking investment community time to understand the new environment that emerges when major structural changes take place in what has been an industry that is very slow to change. This is true across industries like artificial intelligence, software, cybersecurity, energy, power, legal services, aerospace, defense, et cetera. But it's especially true in higher education. Small private universities have been closing for decades, but closures are going to happen at an increasing rate going forward. Last week, this momentum went to another level when WASC announced four prominent universities were put on warning status due to extreme financial instability.

Grand Canyon Education and its largest partner, Grand Canyon University, as well as its 19 other partners represent a good example of an organization that has responded to technology breakthroughs, regulatory changes and economic pressures. It is an agile, fast-moving company that is displacing legacy incumbents.

With all the headwinds in the higher ed landscape and the very difficult second quarter comps, GCE delivered another great quarter that included a $0.14 earnings beat over consensus estimates. But as you will see, the changes we continue to make to respond to the opportunities that exist in this volatile environment are going to come to at an increasing rate and make it difficult for many legacy incumbents to keep pace, but it will allow us to continue to produce extremely positive results.

Now, I want to review the three major platforms at Grand Canyon Education. Platform one, the online campus at Grand Canyon University. New online enrollments grew in the low-single digits in the second quarter against very tough comps and total enrollment grew at just under 8%. GCU's long-term goals are to grow new enrollments in the mid-single digits and grow total enrollments like 6% to 7% on an annual basis. There is a lot that goes into this, but I want to focus on two things that differentiate our strategy and continue to produce consistent results.

Number one is outside development team that works directly with over 6,000 organizations across the country to develop their talent from inside, from school districts to hospitals, counseling centers, social work organizations, military bases, et cetera. Over 32% of GCU students are generated through this activity and it continues to grow.

Number two, over 70% of online students, GCU's online students, are pursuing degrees in areas that where licensure is required. We believe that some students pursuing business or technology, for example, careers will look for shorter, more direct path to get started. This is continuing to impact enrollments at many institutions. GCU will offer certificate programs as well as degree options for those students. However, the bulk of degree growth on our online campus is happening in education, healthcare, counseling, social work, et cetera, areas that require accredited degree programs that lead to licensure.

These degree and licensure requirements are not going to change. There are huge shortages in those areas and very few options offered at a distance because of student teaching, observation hours, internships, clinicals, et cetera that are required and difficult for universities to provide. We have developed a $300 million proprietary administrative system that allows us to serve those students at a distance. We have been moving in this direction for years and have developed a strong brand with employers and built tremendous momentum as a result.

Platform two, the traditional ground campus at Grand Canyon University. GCU started with under a 1,000 students 18 years ago and now has just under 25,000 students. This is unprecedented growth. GCU now has more students living on campus and university-owned housing than any university in the country. The average incoming GPAs are over 3.5. GCU has invested over $2 billion in the campus and is currently ranked the 20th best campus in the country. GCU has 22 advisory boards and over 800 organizations in Arizona that are represented.

GCU hasn't raised tuition in 17 years and the average student takes out less debt than the average state university student. As universities continue to raise tuition and more universities close, our advantages will continue to grow. However, in addition to those advantages, GCU is adding three important new tracks that will increase student enrollment opportunities to grow the ground campus to 50,000 students.

Number one, the Sheila and Mike Ingram Honors College. The Honors College will grow from 3,000 to 3,500 students this fall. The goal is to grow to 7,000 students by 2030. The average incoming GPAs are over 4.1 weighted and the students come from all 50 states. GCU is building a 55,000-square-foot three-story building to house the college that will be a state of the art facility.

GCU is building an honors college council that will be a who's who of successful Arizonans and many other Americans who will provide guidance to the college and its students. This will be one of the largest honors colleges in the country. GCU currently has some of the best high school students turning down Ivy League scholarships in order to attend the Ingram Honors College. The fact that the college sits in one of the fastest growing cities and economies in the country will provide the graduates with incredible employment opportunities.

Number two, GCU is opening an 11th college that will be called the College of Construction and Industrial Technologies. It is opening with two bachelors programs and 11 one-year certificate programs to grow America's manufacturing and construction labor force. There are huge shortages in these areas, and the first goal is to add thousands of students in this college in the first full year of operation, which starts in September. This will add significantly to the revenue performance of both GCU and GCE going forward.

GCU now has 13 fully built-out programs, two 2 baccalaureate programs and 11 certificate programs in advanced manufacturing, construction and microchip technology. Currently, 20% of students studying in these areas live on campus, and some of the certificate students are going to stay and apply to GCU's Engineering Bachelor's program when they have completed the year. These programs have higher retention rates and are very profitable.

Number three. GCU's 12th college is also starting in the upcoming year and will be a law school. GCU intends to make it one of the largest law schools in the country. There is a severe shortage of attorneys in Arizona and the Greater Southwest. GCU is working closely with the Arizona Supreme Court. They have been very encouraging and we plan to open in the fall of 2027.

GCU has written a curriculum for the program and is in the process of hiring a dean. GCU anticipates offering a 3+2 and a 3+3 program, which will boost our pre-law undergraduate enrollment numbers and supply admission-ready candidates for the law school. GCU students have been asking for this opportunity for years. GCU believes the majority of the students will live on campus. With the addition of these three new tracks, the path to 50,000 students on the ground campus is becoming clearer.

Number three, the hybrid campuses. Grand Canyon Education's hybrid campuses had an increase in enrollment year over year of 18.5% in the second quarter, excluding the closed sites and those that are in teach-out, which exceeded our expectation. We have turned the corner with this platform and the future is very bright.

We currently have 47 locations that are slightly above 60% capacity. The goal is to have 80 locations with about 300 nursing students per location and an additional 300 students in other healthcare-related programs. We opened a new site in the six months ending June 30, 2026 and closed one site, so the total number of sites remains at 47. We plan to open one new site in the fall 2026 and three to five new sites in 2027.

Additional program offerings are being added, including a graduate nursing program with specializations at Northeastern University, which started this past fall. A hybrid occupational therapy bridge to master's program to the already successful St. Catherine's Occupational Therapy Assistant Hybrid Program beginning in the fall of 2026. An online health science degree with Utica University and GCU launched a Bachelor of Science in Occupational Therapy Assistance Program and a speech language pathology program in 2025 at its Phoenix West Valley location. GCU is also adding a bachelor of science and medical lab sciences program in the fall of 2026.

We currently have almost 6,000 students attending our hybrid campuses. The revenue per student of these students is more than 3 times that of an online student. When we have 80 locations built out with approximately 600 students per location, the capacity will be just under 50,000 students. The prerequisite business that supports this growth continues to take off. The general education science courses that are designed to get students academically prepared for the ABSN program has enrolled over 25,000 students to date and has tremendous room for additional growth.

We believe the investment community is missing the major industry shakeup that occurs when structural shifts such as technology breakthroughs, regulatory changes or economic pressures allow agile, fast-moving companies to displace legacy incumbents and seize market leadership. This is happening right now with Grand Canyon Education in the higher education industry. The online campus will continue to grow at 6 to 7 percentage points. The ground campus, which has been flat, is reignited with the future growth of the honors college, a huge potential of the College of Construction and Industrial Technologies and the start of what will be a very large law school. We expect the hybrid campus business to continue to grow in the teens or greater in the future.

Service revenue was $264 million for the second quarter of 2026, an increase of $16.5 million or 6.7% as compared to $247.5 million for the second quarter of 2025. The increase year over year in service revenue was primarily due to an increase in university partner enrollments of 7.6%, including an increase in GCU online enrollments of 7.8% and university partner enrollments at the off-campus classroom and laboratory sites, excluding sites in teach-out or closed, of 18.5%, partially offset by one less day of ground traditional revenue at GCU of $1 million in the quarter as a result of the shift of one day of revenue from the second quarter to the first quarter as compared to last year's spring start date and a slight decrease in revenue per student year over year, partially due to the contract modifications with some of our university partners in which our 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 and a slight decline year over year in ground students, which generate a higher revenue per student than online students.

Operating income and operating margin for the three months ended June 30, 2026 was $58.2 million and 22% respectively as compared to $51.8 million and 20.9% respectively for the same period in 2025. Net revenue (sic) [income] was $45.9 million for the second quarter of 2026. GAAP diluted income per share for the three months ended June 30, 2026 is $1.75, as adjusted non-GAAP diluted income per share for the three months ended June 30 2026 is $1.81, which is $0.14 above consensus estimates.

With that, I'd like to turn it over to Dan Bachus, our CFO, to give a little more color on 2026 second quarter, talk about changes in the income statements and balance sheet and other items as well as to discuss 2026 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, 2026 and 2025. 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, 2026 and 2025 is $1.81 and $1.53 respectively.

In addition, included in our Form 10-Q filed today is the announcement that on July 29, 2026, we entered into an amended and restated Master Services Agreement with GCU. The terms of the amended MSA are generally consistent with the letter of intent that was previously announced. The amended MSA is effective as of July 1, 2026, has an initial term of 15 years running through June 30, 2041, and unless notice of non-renewal is given at least 18 months in advance of the end of the initial term or any renewal term will automatically renew up to three additional five-year renewal terms.

The amended MSA eliminates GCU's ability to terminate for convenience while also eliminating any related or early termination fees owed by GCU prior to the end of the term. Restructures the service fees such that going forward, service fees are calculated at 60% of tuition and academic related fees only, ancillary fees and other revenue are for the sole benefit of GCU and a reimbursement payment that the university (sic) [GCE] had been making to GCU in respect of certain academic related costs is eliminated.

And last, in lieu of the prior non-renewal fee that was due if GCU did not renew the MSA at the end of the term, the company would continue to provide services to and receive service fees from GCU for an 18-month period following termination. As previously disclosed, the company estimates that under the amended MSA, its service revenue will be reduced by approximately $20 million annually, but that its operating income will decline by an immaterial amount that should not exceed $1 million per quarter due to the elimination of the academic reimbursement payment.

Service revenue was higher than our expectations in the second quarter of 2026, primarily due to higher than expected hybrid and traditional campus summer school enrollments. Online enrollments approximated our expectations. In addition, approximately $1 million of revenue that we had planned to be recognized in the third quarter of 2026 was recognized in the second quarter. The second quarter operating margin was positively impacted on a year-over-year basis by the higher revenue, the contract modifications and lower general and administrative expenses partially offset by additional spend for 2026 partner additions.

Our effective tax rate for the second quarter of 2026 was 24.7% compared to 24.5% in the second quarter of 2025 and our guidance of 24.9%. The effective tax rate increased over the prior year, primarily due to state income taxes. We did make contributions in lieu of state income taxes this month that will increase general and administrative expenses in the third quarter while reducing income tax expense in an equal amount, three quarters of which will be in the third quarter and one quarter of in the fourth quarter.

Turning to the balance sheet and cash flows. Total unrestricted cash and cash equivalents and investments as of June 30, 2026 were $274.5 million. GCE CapEx in the second quarter of 2026, including CapEx for new off-campus classroom and laboratory sites, was approximately $10.7 million or 4.1% of service revenue. We anticipate CapEx for 2026 will be between $30 million and $35 million.

We repurchased 471,489 shares of our common stock in the second quarter of 2026 at a cost of approximately $75.3 million and another 169,106 shares were repurchased since June 30, 2026. We have $124.1 million remaining available as of today under our share repurchase authorization. The board and the company intend to continue using its cash flow from operations to repurchase its shares.

We are also currently working with our primary banking partner on a line of credit that we hope will be in place by the middle of August that will allow us to continue buying back stock at current or higher levels. Given that the size of the line has not yet been finalized, the interest expense and the impact of any accelerated stock purchases are not included in the guidance below. We will file an 8-K with further details when it is finalized.

Last, I'd like to provide color on the guidance we have provided in our 8-K filed today. As a reminder, the guidance that we have 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 GAAP amounts to non-GAAP as adjusted net income and non-GAAP as adjusted diluted income per share.

We have updated full year 2026 guidance to include the second quarter revenue and earnings [ph] beats (00:20:35). We have made adjustments to second half revenue and operating income guidance previously provided to reflect the impact of the amended MSA and the approximately $1 million in revenue that was recognized in Q2, that had been forecasted to be recognized in the third quarter of 2026.

We have also narrowed the range in both the third and fourth quarters to reflect current trends. We have also reflected the $5 million in contributions made in lieu of state income taxes that will be paid in the third quarter in higher G&A expenses and lower income tax expense and decrease interest income and decrease the weighted average share count as we have purchased and plan to continue to repurchase more stock than was originally forecasted.

I realize that all of these changes need to be pushed through your model, but the result should be adjusted EPS that is $0.03 above consensus estimates in the second half of 2026 when the impact of the $1 million of revenue that was recognized in the second quarter instead of the third is considered and $0.14 above consensus estimates for the full year of 2026. On a more detailed basis, including current trends, revenue is expected to decrease by $4 million and $6 million in the third and fourth quarters of 2026 respectively due to the amended and restated MSA while structural cost in services will be reduced by $3 million and $5 million in the third and fourth quarters of 2026 respectively as we will no longer be making a certain academic reimbursement to GCU.

$1 million of revenue was accelerated from the third quarter of 2026 to the second quarter and recognized in the financials we reported today. The year-over-year changes in the start and end dates of the semesters for GCU's ground traditional campus will move $8.3 million revenue from the third quarter to the fourth quarter in comparison to last year. The change between the third and fourth quarter is more significant this year than in past years as GCU's fall semester for its ground traditional campus begins and ends six days later this year than last year.

We continue to anticipate that new online enrollments will be up year-over-year in the mid to high single digits during the second half of 2026. The second quarter 2026 new start growth rate was expected given that in the prior year new starts were up in the mid-teens and the second quarter is not a traditional back to school time. Total online enrollment growth continues to be pressured by increasing graduations and a continued decline in reentries, students returning to school after break due to the high retention rates.

We continue to anticipate online revenue per student will be slightly down year over year due to mix shift to programs that have slightly lower net tuition rates. The revenue range continues to assume that GCU'S ground enrollment will be approximately 25,000 in the fall. The reported ground number continues to include GCU hybrid, which continues to grow and professional study students, which we expect to be slightly down on year-over-year basis. Total ground enrollment continues to be impacted by the lower fall 2024 new start and the growing number of graduates year over year as a significant number of ground traditional students continue to graduate in less than four years.

We continue to expect total enrollment growth rate for the hybrid pillar to remain in the teens during the second half of 2026. As has been discussed previously, the hybrid growth rate is currently being impacted by the fact that we now have 14 locations that are at or near capacity, and thus, we have little to no growth year over year in total enrollments at those locations. And from a new enrollment perspective, 22 locations will not have year-over-year growth in new enrollments on a year-over-year basis in the fall as although eight locations are not at state authorized capacity, we started the maximum number of students allowed during fall 2025.

The higher than expected new starts in spring 2026 will also have an impact on new start growth rates at a few locations in the fall due to capacity constraints. But total enrollment should continue to meet or exceed our expectations. We remain hopeful that some of these locations will get local regulatory approval to grow in the future as they currently have waitlists and we still have a lot of opportunities at the other locations.

On the expense side, we continue to make investments to support our university partners' growth, but continue to anticipate margin expansion in 2026. As has been previously discussed, the online programs primarily that lead to licensure in which GCU is growing at an accelerated rate, either cost us more to service than the traditional online programs or are at lower net tuition rates, which is putting some pressure on margins. We also continue to absorb significant increases in technology, services and benefit costs.

We have some pressure on margins in the third quarter as the GCU traditional campus start and end dates moved back this year, but that reverses in the fourth quarter. As it relates to the hybrid pillar, we will incur additional costs for the new hybrid locations that have opened in the last year or will open in late 2026, early 2027. But we are experiencing increased site level profitability due to the increasing enrollments.

Projected general and administrative expenses have increased our guidance in the third quarter of 2026 by the contributions in lieu of state income taxes of $5 million. Approximately 75% of this is recognized as a reduction in income tax expense in the third quarter of 2026 with the remaining recognized as a reduction in income tax in the fourth quarter. This is consistent with the prior year. We are estimating that interest income will decline year over year in 2026 due to the declining cash balances, due to more aggressive stock buybacks and a declining interest rate environment.

The effective tax rates for the remaining two quarters of 2026 have been reduced due to the contributions of mostly income taxes to 20.8% and 23.2% in the third and fourth quarters respectively with a full year tax rate of 23.2%. Had the contributions not been made, we estimate our effective tax rate would have been 24.7% and 24.4% in the third and fourth quarters respectively. These effective tax rates continue to be impacted by higher state income taxes as we continue to add new sites in states outside of Arizona, which have higher state tax rates and other factors, including the decrease year over year in the excess tax benefit due to a decline in our stock price.

Our weighted average shares guidance takes into account the significant amount of stock we have or plan to purchase. We anticipate continuing to use our excess cash to repurchase shares as the board believes the stock is materially undervalued based on the metrics it uses to evaluate this, including the ratio of enterprise value to adjusted EBITDA and free cash flow yield in comparison to the other S&P 500 companies.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question will come from the line of Jasper Bibb with Truist Securities. Your line is open.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Hey, good afternoon, guys. Really nice online enrollment figures. AI – obviously kind of one of the big topics around the space has been the potential impact of consumer adoption of GenAI on customer acquisition and enrollment. Just kind of curious, hoping maybe you could share what your experience has been with inquiry volumes, this kind of AI theme and how you're reacting to the kind of broader consumer shift there? Thanks.

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

A

Yeah. We have listened to other calls and so we've heard that too. The way we're getting over 30% of our starts and I think it's going to grow to 40% of our starts has nothing to do with generating leads. It has to do with meeting the needs of organizations throughout the country. It's just such a high quality way for a university to serve the needs of the economy. And so, we are shielded from some of the growth [ph] that is – because of the (00:28:37) decline in the efficiency of marketing spend. We're impacted the same way others are from the standpoint of web leads being down, but we're not as impacted because we don't have to get our growth from increased lead amounts like other people do.

AI is absolutely the future and positioning ourselves so that the best stories come out when people go to AI to check on Grand Canyon University is going to be the future of the whole market. And we are working very hard to position the best things about GCU especially, but other partners as well, so that they'll come up when people look for us, the honors college, the opening of the law school, the tremendous contribution to what has to be a rebuilding of the labor force in construction, industrial technologies, our relationship – our growing relationship with TSMC, which is the largest chip manufacturer in the world, it sits 20 minutes from here. And we're opening incredible partnerships with that company, with Amcor.

And so, everybody's impacted to some extent by the shift away from searches to AI. We're not as impacted by it and we expect our growth rates that we talked about today not to be impacted by any of that. And I think it will only get better for us as we go forward.

Can't under emphasize the other structural change that's taken place and thank you for picking up coverage for us. But for four or five years, we were just fighting the negative PR that came from the attack that was placed on us by the Biden administration. That's all done. That's all gone. People aren't even talking about that. People are talking about our honors college. They're talking about our new law school. They're talking about those kinds of things which has changed everything for us. And so, that's kind of a long winded answer to your question, but we're just not as impacted by those changes like people who are more dependent on those things are.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Right. No, that makes sense. And thanks for all the detail there. It sounds like a lot of exciting things going on. Maybe just a last one for me, on the new student loan rules that took effect on July 1. I know it's early. You've probably only had a couple of weeks of experience with this, but could you just walk us through maybe how you're managing that transition? There are some new processes, new borrowing caps for different programs. Just any detail on how that's going so far would be great.

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

A

But I assume you're talking about the master's degree program limitations on loans?

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Yeah. I think there's some just different operational processes of how that has to be handled on your end and things like that, so.

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

A

Yeah. I'll talk about that one because I think that's the big one. We've been encouraging the Department of Ed to do that for years. When the rules around loan amounts for master's degree students, graduate level students were put in place, it was when most graduate students were students who graduated from baccalaureate program and entered a master's degree program and spent two years doing that. And sometimes they would be married with kids and they needed living expense money. That's all changed in the last 30 years.

90% plus of students that are now in graduate programs are doing it online and they're mid-career professionals and they have salaries and they have benefits and they don't need that living expense money. But since they could get it, they would take it. And then when loans didn't have to be paid back, they didn't get paid back. And we told the Department of Ed for years, adjustments should be made to reflect who graduate students are today versus who they used to be.

We had a thing called responsible borrowing – we have a thing called responsible borrowing. And we would show students, if you're going to borrow money to do your program and you borrow the amount to cover the direct costs, this would be your payment. And then if you borrow the full amount, including living expense money, this will be your payment. And we were actually criticized for doing that by the previous administration because we weren't being – we were trying to preclude, to keep people from over-borrowing. And that was just – it was just bound to lead to loan defaults. And so, that major change has taken place. We are fully behind and it's not impacted any of our programs. Our tuitions are way under what the amount the students can borrow. And so, we're not impacted by it at all. In fact, we think it's a really good thing.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Got it. Thank you for taking the questions.

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

A

Yeah. Thank you.

Operator: Thank you. One moment for our next question. And that will come from the line of Jeff Silber with BMO Capital Markets. Your line is open.

Q

Hey, thank you so much. This is [ph] Ryan (00:34:03) on for Jeff. I was just curious if you think your competitors are intentionally shifting their degree mix to more licensure programs in the wake of the perceived AI risk on some of those certain degrees? And then do you think we could see a larger tuition differential between different majors and programs in coming years? Thank you.

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

A

No, good question. To the first question, it's just the opposite. I won't name names, but there are a number of what were pretty strong players in the counseling area. And there's a huge shortage of counselors in America that because of CACREP accreditation requirements dropped their programs. They just didn't have the technology and the resources to provide services to students at a distance that allowed them to successfully complete clinical hours and observation hours and internship hours and all those things. And so, it's just the opposite. We see more people dropping out of those programs that are getting into them.

And so, we think going forward, we will be the major player in providing teachers, counselors, social workers, nurses, other healthcare fields, accounting where, yes, you've got to sit for the CPA. We openly embrace – and we're excited about the law school from that standpoint because of board pass rates. We intend to inject the same kind of student support services around – and the academic support services that we do with programs in education where there are content tests that are necessary, nursing where the NCLEX examination is necessary. We look forward to producing extremely high first-time board pass rates.

Those things are challenges to us. It's more difficult, but the difficulty of it, once you've made the investment in it, separates you from the rest of the pack, the people who just aren't willing to do those things. And so, the answer to your first question is, no, we don't expect to see that. In fact, we're seeing the opposite. The second question...

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

A

Differentiated tuition rates by program.

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

A

Yeah, I think we'll see some of that. I think the thing that we're going to see more than anything is what's been true four or five years, which is the way to grow margins in this business is to decrease the cost to acquire a student. And the stronger the brand that you have, the less amount of money it costs to acquire a student and the more you can freeze tuition, which we've done in our ground campus for 18 years and pretty much most online programs for over a decade.

So, I don't see a tremendous need to differentiate more than we already are other than the ABSN program is a premium price program. It's very expensive to operate, but the value that it offers to students in terms of the salaries that they make and the jobs that they can get more than make up for that premium price and the law school will be a premium price program as compared to others, but the payout is the same thing.

And so, we're excited about that from the standpoint of the number of students we think we can have. The revenue per student is going to be very high and the margins are going to be significant as long as we could produce the results.

The other thing that's going to happen is that we think that we can really increase our ground enrollment in our pre-law program because students will be able to stay right here and hopefully do the whole thing in five years. So, no, we don't – I don't think, other than the ABSN program, maybe programs like occupational therapy, law certainly, there'll be some differentiation there. But other than that, not more than there is today.

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

A

And just to add on that, GCU has always had differentiated tuition rates. If you look at, for example, bachelor's programs, not all bachelor's programs are the same rate and same at the master's level. So, I think GCU has been doing that for as long as I can remember. And so, if others are doing that, it probably makes sense.

Q

I appreciate it. And then just on the hybrid programs, heard the commentary on the long-term growth. I was just curious if you can update us on where those programs stand from a profitability standpoint today? And then where do you think the margins could go as you really scale that up?

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

A

Yeah. They're profitable. This year they'll be profitable. How much? I would say we don't really measure it on a standalone basis, but it'll be profitable. Those programs will be profitable. And where they could go? I mean, again, we don't allocate costs or whatever. But I think on a site basis, if you just look at all those locations on a site basis, I think it could be 20 plus percent margins on a site basis perspective.

Jasper Bibb
Analyst, Truist Securities, Inc.

Q

Great. Thanks so much.

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

A

Thank you.

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

We've 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 for your time.

Operator: This concludes today's program. Thank you, all, for participating. You may now disconnect.