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Grand Canyon Education, Inc. (LOPE)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Quarter One 2021 Grand Canyon Education, Incorporated Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] This call is being recorded.

I would now like to turn the conference over to your host Mr. Dan Bachus, Chief Financial Officer. Please go ahead, sir.

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

Thank you. Joining me on today's call is our Chairman and CEO, Brian Mueller. Please note that many of our comments today will contain forward-looking statements that involve risks and uncertainties. Various factors could cause our actual results to be materially different from any future results expressed or implied by such 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 welcome to Grand Canyon Education's first quarter fiscal year 2021 conference call. GCE had another successful quarter and the long-term future is very bright. We are experiencing some short-term issues due to the pandemic which I'll explain in a minute. However, long term we are building three unique and differentiated platforms that will provide significant and impactful growth. The pandemic has been a serious challenge for universities and many are experiencing financial issues. In addition, many recent college graduates who are new to the job market are having a difficult time. Many have degrees that aren't serving them well in the current economy. It has been GCE's goal to create educational models that address the real issues within higher education.

I believe those issues continue to be: one, the out-of-control rising cost of university education. From the early 1980s to the late 2010s, the price of college increased 8 times the increase in wages; two, the increasing student debt levels that will seriously hinder graduates as they begin their adult lives; three, as tuition levels go up, diversity on college campuses go down; four, bachelor's degrees should not take four to six years to complete; five, programs and delivery models lack the creativity and flexibility necessary to address critical shortages in some industries; six, there are inadequate counseling and support services especially for first-generation students or those studying at a distance; seven, three-fifths of college graduates would change their majors if they were starting over; eight, prior to the pandemic, 43% of college graduates were underemployed in their first job, two-thirds remained in jobs that don't require college degrees five years later.

Grand Canyon Education is a large organization, over 4,600 staff, is in a very strong financial position and can invest in educational infrastructure to help institutions address some significant opportunities in the employment marketplace. One of our partner institutions now derives 13% of their total revenues from GCE/Orbis healthcare programs and they want to do more. The combination of institutions looking for additional revenue streams and our ability to help them launch programs locally that prepare students for in-demand occupations is creating rapid partnership growth.

Let me explain how GCE is in a great position to support the three main pillars or platforms of our business. The first pillar, Grand Canyon University Online, has 91,334 students as of March 31, 2021, and in the quarter just completed, new students grew on a comparable start basis in the high-single digits, while total students grew 7.2% year-over-year. GCU has historically put a priority on new program development that helps students gain employment and build careers in the modern economy and has also focused on programs leading to professional licensure with most of those being at the graduate level.

When the pandemic hit last March, we saw an unprecedented surge in new enrollment in the months of April, May and June. New enrollments continued to grow above our stated objectives the next nine months and total enrollments grew above expectations because a very high retention and reentry rates. We knew the second quarter of this year would be challenging because of the very high comps but we were also running into three additional challenges. New starts did not meet expectations this April and will not meet expectations in May mainly because schools, hospitals, counseling centers haven't opened up the way we expected them to and our access to the employees hasn't returned to normal. In addition, because of high retention rates, the number of graduates are exceeding our expectations and our reentry pool dried up.

Twelve months ago when the pandemic hit and people were sent home as we've said before, there was a surge in new enrollment as people were looking to do something productive with their time. One year later, as the country is beginning to open up, people are adjusting to the new reality of what going back to work means for them and whether their children will be in school or not. And so there was some indecision at the end of April and some students decided not to start. However, we believe that we will begin to rebound in the third and fourth quarters as schools reopen and as hospitals, counseling centers, and businesses resume more normal operations.

The miss in enrollment at the end of the second quarter will be mostly at the graduate level. We haven't pivoted to recruiting more adult undergraduate students in the short term because GCU's high-quality student body produces very good metrics including high graduation rates, low cohort default rates, 72% on the 90/10 percentage, and low student debt amount as compared to state and private universities. We consider this enrollment challenge to be short-term only. We are already seeing things begin to open up in May and we don't want to change a very successful 13-year strategy as a result.

The second pillar or platform to our business is the GCU traditional campus. As many of you know, we began the Fall semester with 22,363 ground campus students, of whom approximately 5,000 traditional campus students stayed at home and took their classes online. In the Spring 2021 semester, we started with 19,721 ground campus students, of approximately 3,500 traditional campus students stayed home and took their classes online. This resulted in approximately 3,000 fewer students paying room board and other fees related to be being an on campus student. However this was partially offset because GCU actually had an increase of 11.5% in ground traditional students excluding professional studies.

GCU recently put a message out stating that the campus intends to be fully up and running in the traditional manner in the Fall semester of 2021-2022 academic year. We are still trending to meet our established enrollment goals. GCU's traditional campus is in a very strong position and is becoming a bigger part of the strategy every day. GCU's goal is now to have 40,000 on its traditional campus in West Phoenix.

The pandemic has made it abundantly clear that 18-year-old students desire to have a campus experience as much now as they ever have. It just needs to be affordable. The combination of GCU and GCE in building out traditional campus has many strategic advantages. One, Phoenix is a destination city and Arizona is a destination state. Two, GCU has invested $1.5 billion in educational infrastructure and the campus is currently ranked 19th in the country. Number three, GCU hasn't raised tuition in 12 years and their students take out less debt than the average state university student. In addition, the Wall Street Journal recently released average parent plus debt amounts. GCU parents take out approximately 50% of the debt amount taken out by the three heavily subsidized state universities in Arizona. Four, GCU now has nine colleges that have over 209 academic programs, emphases and certificates. Five, GCU is adding more than 20 new programs per year targeted at growing occupational areas. Six, the university will invest $500 million additional dollars in the next four years with the plan to grow at its campus to accommodate 40,000 students.

The university is in a strong financial position in the aftermath of its split from GCE to become a non-profit institution. It is financing all its current CapEx and has $325 million in cash as of March 31, 2021. Those that predicted the transaction would produce financial ruling to the university were very, very wrong. Seven, GCE has almost 200 people involved in the recruiting process. Eight, GCE has a state-of-the-art marketing and advertising agency to develop efficient and productive campaigns. Nine, GCE has invested heavily in building out virtual tours of campus, live classroom demos to expose current high school students to GCU during the pandemic when travel is limited. And 10, GCU's Christian and free market positioning makes it attractive to a large national audience with very few affordable scalable options.

The third pillar or platform of the business is Grand Canyon Education/Orbis. Our goal is to continue the rapid expansion of partners, some of which want to provide both healthcare and non-healthcare programs. GCE bought Orbis 26 months ago. Since that time, we have expanded to 26 partners. We opened eight new off-campus classroom and laboratory sites in the past nine months, partially offset by the planned non-renewal of the contract with the university partner with two sites in the first quarter of 2021 resulting in an increase of these sites to 29 as compared to 23 at March 31, 2020.

We have signed a contract with a new partner in the Southern California market and we are close to signing a contract with a new partner in the New York City market. We will open medical labs science programs with two new partners in the Fall. We are working very hard at a number of locations in the West to implement GCU's nursing and other healthcare programs. The goal is to have over 40 locations by the end of 2022, 50 locations by the end of 2023, and eventually to grow to 80 locations. This is a huge national platform in which to enroll students and produce graduates.

GCE now has not only the largest partner in the OPM space, GCU, it is also rapidly adding partners. This is happening because, first, many quality universities are experiencing financial stress and looking for options to increase their revenues; second, there are important healthcare and other technology careers that are experiencing serious shortages; third, universities don't have the resources to scale many of those programs; fourth, GCE has the capital and the knowhow to scale those programs and create opportunities for thousands of underemployed young adults while helping universities create important additional revenue streams.

Most locations start with the ABSN program, but most have the ability and desire to scale up to as many as 10 additional programs. Sites will eventually accommodate between 250 and 1,000 students in multiple programs. Programs will cost between $30,000 and $60,000, take between 12 and 24 months, and lead to jobs paying between $50,000 and $100,000. Most of the students in those programs will have already completed a bachelor's degree but consider themselves underemployed. GCU will fill many of the sites in the West and will continue to expand into additional healthcare and non-healthcare academic areas.

GCE is pleased to announce that it has signed an agreement with Harding University which will include multiple Orbis sites, as well as a fully developed model for some of their master's degree programs. This is a first, more comprehensive contract that may be replicated once it becomes successful. Grand Canyon Education has three large, well-financed, highly professional platforms to grow with in the next five years. Each platform is addressing real needs in the market and is producing high-quality outcomes for our partners and the economy. I've never been more excited about the future of GCE.

In the previous conference call, I outlined the GCE and GCU five-point plan designed to transform an inner-city neighborhood. We are very proud of the ongoing efforts that are producing real results. In addition, GCU/GCE recently opened up a vaccination center on campus to serve our neighborhood. That center provided a [ph] total (13:33) of 116,000 vaccinations in a 12-week timeframe. That very important work was provided by 4,380 volunteers who worked 31,463 volunteer hours, resulting in no cost to the taxpayer. The project was assisted by partnerships with Chicanos Por La Causa and our local Mexican Embassy and provided a much-needed service to a very vulnerable population.

With that, I would like to turn it over to Dan Bachus, our CFO, to give a little more color on our 2021 first quarter, talk about changes in the income statement, balance sheet and other items as well as to provide 2021 guidance.

Daniel E. Bachus

Chief Financial Officer, Grand Canyon Education, Inc.

Thanks, Brian. Included in our Form 8-K filed with the SEC, we have included non-GAAP net income and non-GAAP diluted income per share for the three months ended March 31, 2021 and 2020. The non-GAAP amounts exclude the tax-affected amount of the amortization of intangible assets. The amortizable intangible assets acquired in the Orbis acquisition totaled $210.3 million and amortization expense in the first quarter 2021 and

2020 was $2.1 million. We believe the non-GAAP financial information allows investors to develop a more meaningful understanding of the company's performance over time. As adjusted, non-GAAP diluted income per share for the three months ended March 31, 2021, 2020 is $1.72 and $1.53, respectively.

Service revenue exceeded our expectations in the first quarter of 2021, primarily due to higher than expected revenue per student due to higher ancillary revenues than expected and strong retention at GCU, which increased our average daily revenue per student. As expected, revenue per student declined year-over-year primarily due to approximately 3,500 of GCU's traditional campus students selecting to attend the Spring semester entirely in the online modality due to COVID-19 concern. As a result, Spring semester fees, room and board, and other ancillary revenues for the first quarter 2021 at GCU were lower than in the comparable period in the prior year, which reduced the service revenue we earned.

This is partially offset by our revenue growing faster at our other university partners than at GCU and we generally generate a higher revenue per student on those service agreements than on our service agreement with GCU as these agreements generally provide us a higher revenue share percentage, the partners have higher tuition rates than GCU, the majority of their students take on average more credits per semester as they are an accelerated program.

As Brian mentioned, new online enrollments at GCU increased in the high single digits but this was offset by a higher number of graduates at our university partners than expected. GCU had a 19% increase in working adult graduates year-over-year, which was higher than expected and our occupational therapy university partner had significantly more graduates than anticipated in the first quarter.

As a reminder, the reported other university partner enrollments at March 31, 2021 do not include the off-campus GCU ABSN students and the reported year-over-year growth is being negatively impacted by the non-renewal of a service agreement with a former university partner and the larger than expected number of OTA graduates.

Excluding the March 31, 2020 enrollments from the former university partner, off-campus ABSN students grew 18.6% between years. We estimate the reduction in service revenue attributable to reduced tuition fees and ancillary revenue of our university partners resulting from COVID-19 was $4.5 million in the first quarter of 2021. Included in both our 8-K and the 10-Q filed today is a detailed explanation of the actual impacts on all of our university partners for the Spring 2021 semester and our projected impacts for the Summer 2021.

Our effective tax rate for the first quarter of 2021 was 20.4% compared to 24.2% in the first quarter of 2020 and our guidance of 21.7%. The lower than expected effective tax rate was primarily due to higher than expected excess tax benefit as a result of a higher stock price at the time of the restricted stock vesting and stock option exercise. We estimate that the lower effective tax rate increased our earnings per share by $0.03.

We repurchased 567,255 shares of our common stock in the first quarter of 2021 at a cost of approximately $56.3 million and another 87,474 shares at a cost of $11.6 million subsequent to March 31, 2021. As of today, we have $180.4 million available under our share repurchase authorization.

In March 2021, we entered into an accelerated repurchase plan with Morgan Stanley, resulting in a payment for $35 million with initial common shares delivered of 275,889 shares, approximately 80% of those shares based on the fair market value. These shares and $28 million of the payment are included in our first quarter share totals and available authorization balance. The remaining $7 million is included in the subsequent shares repurchased as settlement with Morgan Stanley occurred on May 4, 2021.

Turning to the balance sheet and cash flows, total unrestricted cash and short-term investments at March 31, 2021 were $262.3 million. Our credit facility has an available line of credit of $150 million as of March 31, 2021.

GCE CapEx in the first quarter of 2021, including CapEx for new off-campus classroom and laboratory sites, was approximately $8.9 million or 3.8% of net revenue. We continue to anticipate CapEx for 2021 will be between $30 million and $35 million.

It is our understanding that GCU continues to explore options to refinance part or all of the note outstanding. Based on conversations with the university, if the university does complete a refinancing of the note, it will most likely not be completed until the fourth quarter of 2021. Again, there is no assurance that a refinance will occur in 2021. The university hasn't informed us that they will again request to borrow money near the end of the second quarter of 2021 for short-term cash flow needs and that the amount borrowed will be repaid in July 2021.

Last, I would like to provide color on the guidance we have provided for the rest of 2021. The guidance that we have provided continues to be non-GAAP as adjusted net income and as adjusted diluted income per share as we exclude the amortization of acquired intangibles. As Brian discussed earlier and we have discussed previously, the last 9.5 months of 2020 was a perfect storm for GCU online. Driven by the COVID-19 pandemic and the significant operational and technology advantages that GCE believes it has against its competition as well as a growing GCU brand at affordable price point, GCU online saw enrollments that significantly exceeded our expectations.

The higher than expected enrollments were due partially to a surge in new enrollment, especially in the second quarter of last year when we saw year-over-year increase of almost 20%. This higher than expected new enrollment growth continued through March of 2021, one year after the acceleration began. As Brian mentioned, new online starts were up in the high single digits in the first quarter on a year-over-year basis which continue to be higher than our long-term target.

In addition, during the past 12 months, we have seen a significant reduction in students taking time off, which has resulted in a higher revenue per student and higher total enrollment. Although all of this is extremely positive, it made forecasting this year very difficult. Historically, online enrollments and revenue have been fairly predictable, which has helped us in being able to beat and raise for 13 straight years. We have historical experience that helps us predict the number of students that will start each month, the number of students that will graduate based on their current progression, the number of students and length of time on average that students will take time off and then restart their programs.

The significant changes that occurred in the last 12 months, along with the unpredictable timing of the reopening of schools, hospitals, and businesses made forecasting this year harder than any other year. In our guidance for this year, we had projected an increase in graduations and a decrease in re-enters which are students returning to class after taking a break as a percentage of total enrollment on a year-over-year basis due to the trends I just mentioned. But actual graduations are exceeding our reforecast and re-enters our trending much less than our reforecast – than our forecast. This was made up by the continued higher revenue per student and better than expected enrollments in the first quarter.

Since we are now over 12 months since these trends began, we believe there is limited ability to make up for higher than expected graduations and lower re-enters as these current trends continue with higher than forecasted starts and revenue per student, especially given the fact that a lot of major markets, schools, hospitals, and businesses are just starting to return to pre-COVID normal, much later than we had hoped.

We had planned on new starts being down in the second quarter as the second quarter is typically not a back-to-school time for adult students except for last year but we are concerned that new starts will be down on year-over-year basis, greater than we expect in the second quarter. We are still hopeful that things will return to our long-term target growth rate in the third quarter for the reasons Brian cited earlier.

Again, we do not believe this is a long-term fundamental change in our business, but rather a short-term year-over-year issue, with difficult comps impacted by COVID-19 that will eventually smooth out. The ground enrollment growth rate continues to be pressured by significant decline year-over-year in professional study students, working adults that take courses on ground, primarily at GCU's traditional campus, as we have not had entry points for these potential students due to COVID-19 and most of these students have now graduated out of their programs. We are hopeful that new professional studies cohorts will start again beginning this fall.

As it relates to GCE Orbis, one new off-campus classroom and laboratory site opened in the spring, two additional sites will open in the summer of 2021, and we are hopeful to open three additional new sites in the second half of 2021. Two sites that we thought could potentially be opened in the fall 2021 are more likely to open in spring 2022.

On the expense side, we have not changed our expectations for the first nine months of 2021- for the last nine months of 2021, I'm sorry. We're now starting to see the acceleration in expenses we anticipated would occur as travel and medical benefits have begun to return to normal. These expenses have been down significantly in comparison to historical amounts beginning near the end of the first quarter of 2020.

We have slightly adjusted our expected effective tax rate excluding potential contributions made in lieu of state income taxes to 23.7% in Q2, 24.7% in Q3, and 24.0% in Q4. All remaining stock options were exercised during the first quarter 2021 and the majority of the outstanding restricted stock vests in the first quarter of each year. Therefore, there will not be any excess tax benefits the rest of the year.

We have adjusted the weighted average shares outstanding amount to take into account our best estimate of the stock that will be repurchased, but does not take into account any shares that would be repurchased on a refinance by GCU.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Jeff Meuler from Baird. Your line is open.

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

Q

Yes. Thank you. So on the – I guess the weaker trends from a total enrollment and new enrollment perspective in Q2, any quantification you can help us with? And I ask from the standpoint that the way you're describing the situation, it sounds fairly material. But then when I look at the revised 2021 guidance, I recognize there's a reduction, but the magnitude of the change in revenue doesn't seem all that material to me. So just any help you can provide there...

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

A

Yeah.

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

Q

...or if there's offsetting factors that we need to be considering.

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

A

No, it is not hugely material but obviously, we take very seriously the guidance we gave and in our 13 years, I can't recall a single time we've had a lower revenue. So it is material, but it is lowering and so I think all three things that we talked about, the new starts, the re-enters, and the graduates are all slightly great – new starts are – we expected them to be down in the second quarter but the magnitude of the down is slightly worse than we thought. Re-enters is -opportunity going forward is less than we thought and the graduations, as you said, is – as we talked about is we knew graduations were going to be up year-over-year. We knew re-enters were going to be down given what we talked about but each are trending a little worse than we expected. But still pretty impressive given the year we've come off of.

So I don't know, Brian, anything to add to that?

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

A

No. Well, hey, Jeff. Sounds like [indiscernible] (27:36) question.

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

Q

Yeah. So I guess on the return to more normal growth, at least from a new starts perspective in the back half of the year, I guess what gives you confidence in that? And I think you said that you're already starting to see some reopening. Was that a specific reference to your recruiters being back in those environments or is that just a more general, I guess, macro comment on the economy more broadly reopening?

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

A

No, as I think you know, we spend a lot less money on advertising than a lot of our competition does; general media advertising, traditional media advertising. We have a relationship with over 8,000 high schools, for example, in the country, including 4,000 private and about 4,000 public. And those relationships produce a lot of win-win situations and so a lot of what we do with schools, with hospitals, with counseling centers, with businesses is built on relationships that provide win-win kind of scenarios and those things haven't been as open to us.

But we didn't change our strategy knowing that – the pandemic kept going. It kept going and it kept going and we were worried at some point that it would negatively impact us, but we didn't change our strategy and buy a lot of leads and recruit some questionable students because we're very concerned about the quality of both our students on ground and online.

On ground, this fall, we're extremely excited. The average incoming GPAs of this next class will be almost 3.6. [indiscernible] (29:23) has grown to 2,500 students – 2,700 students with average incoming GPAs over 4.0 and our online students body is approximately 50% graduate students. And it was those students who are earning licensures in education and counseling and nursing, some in technology. Those are the ones that we didn't have as much access to and those are the ones that are now returning to work and they're adjusting again. Their life is changing. They're wondering what's going to happen with their kids. Are they going to be in school or not?

And so it was that strategy that made us a little bit more vulnerable than people who rely totally on advertising and generating leads, but we didn't want to pivot out of that strategy because we're very proud of the quality of our students and the quality of the outcomes that we're producing. I mean, for example, one of the things that made us vulnerable in April was higher than expected graduation numbers. We had incredible month-over-month, quarter-over-quarter retention numbers. Those are good things.

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

Q

Yeah.

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

A

Those are good things. If your enrollment is down because students are dropping, then you have a real issue. But we've got really high-quality programs that are leading to really good occupational career opportunities and so that's why we believe that this is a temporary thing and long-term, this thing will turn around.

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

Q

Okay. Makes sense. And then last, on Harding University, you kind of went through it quick. So is it a signed contract or a letter of intent? And on the Master's aspect of it, is that broader than like health care and any scale ambition potential you can relay in terms of number of programs or number of students you'd hope to get to over a intermediate term basis?

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

A

Yeah. We're excited about the Harding thing because number one, it is a signed contract. Number two, it is for a number of Orbis sites but also, yes, we are helping them with some of their Master's programs outside of the health care area. We're helping convert them so they can be delivered online. But we're really excited because they're very excited and they have a lot of ambition in this area and they're very, very willing partners. And so as a result of that, we're not only going to do something with it from an Orbis standpoint, but we're going to do some other things that they want to do. And so, yes, it's a signed contract and we're moving.

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

Q

Got it. Thank you.

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

A

Yes.

Operator: And your next question comes from the line of Brett Knoblauch from Berenberg Capital. Your line is open.

Brett Knoblauch
Analyst, Berenberg Capital Markets LLC

Q

Thanks for taking my question. Just on Orbis, when I look at the – I guess, [ph] fee (32:32) and other enrollments, that growth was a bit lower than historical. Was that largely due to two of – or the one university that terminated a couple of those locations or is there anything else than that?

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

A

No, it's a couple things. One is that when you're looking – if you're looking at the enrollment number, there are a couple things you've got to remember. One is that GCU's off-site locations are not in that other partner number, and that's where a fairly significant amount of their growth is coming from. GCU open two off-site locations through the Orvis relationship. And those are being included in the GCU enrollment number. Number two is, as you suggest, the non-renewal of the contract and thus the enrollments are not in there for the next year or for current year where they were in the previous year.

And then lastly, they have one partner for occupational therapy and there were significant number of occupational therapy students that graduated during the first quarter of 2021. And so we actually saw a slight decline in the overall occupational therapy enrollment number there. Not necessarily because the new starts were below their expectation in that program but that the graduates outnumbered the number of new starts, and part of that I think had to do with COVID type of thing. So in total, and I mentioned this in my prepared remarks, when you strip out the – when you add in effect GCU's Orbis students and you strip out the contract that was terminated, I mean, their growth was in-line with what we thought it would be for ABSN. That was a long answer to your question, but I was delaying it, I was trying to find that exact number, 18.6% year-over-year growth for Orbis ABSN or off-site ABSN students.

Brett Knoblauch
Analyst, Berenberg Capital Markets LLC

Q

Understood. And then maybe just one follow-up on I guess the new contract with Harding University. I guess going – and so I haven't heard of the university before, a quick Google search, 5,000 students in the middle of Arkansas. Can you walk through I guess what determined why you guys chose them, why you think that's a good fit, how quickly would these maybe master programs ramp and maybe the timing of when you'd expect that to start to flow through the revenues?

Brian E. Mueller

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

A

Yeah. I think there's two things there. One, when we – 26 months ago, we said we thought about 70 locations – 70 markets, 70 locations. But then we started to look at places like Arkansas. And there are cities within Arkansas that are not large cities but the greater metro area is significant and could provide enough to have these Orbis locations. And so Harding is very willing to do things at a distance. They're very excited about these programs, the quality of their programs and converting them into this accelerated format. And so that allowed us to move our location number from 70 to 80 and it possibly could be more. So we're really excited about the experimentation with that side of it.

And then their master's degree program, the other master's degree programs. The interesting thing about Harding is that it is a religious institution. It has a denomination that has a pretty extensive denomination and they have a network as a result of that. It's a little bit similar to Liberty. Liberty has a little bit of an advantage in the size of the Southern Baptist Convention and that being tied to their institution. Well, that's true to some extent with Harding. And so it's going to be a very interesting experiment on both of those levels. And like I said before, they're all very willing partner. And so we're anxious to see what we can make of that. And as we do, we'll learn things which will be very valuable as we keep moving forward.

Brett Knoblauch

Analyst, Berenberg Capital Markets LLC

Q

Understood. Thank you.

Brian E. Mueller

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

A

Great.

Operator: And our last question comes from the line of Greg Pendy from Sidoti. Your line is open.

Gregory Pendy

Analyst, Sidoti & Co. LLC

Q

Hey, guys. Thanks for taking my questions. Just I guess in light of the guidance and I know it was just kind of modestly brought down on a forward basis. But in regards to the new student starts, we're hearing from a lot of the schools I think in this case that do depend on the advertising and buying leads model that it seems like things are getting more aggressive out there. So I understand you guys have more of a different model for attracting students. But is that potentially something that could be impacting you on a go-forward basis and how has it happened or have you operated in times when you've seen some of the other competitors in the space that do depend on sort of the buying leads model when they get more aggressive, is it a risk to you or is it something that you've been relatively immune to?

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

A

Well, no. I mean, I've been saying for seven or eight years. When you – the conversion of campus-based programs to an online format, when they're the kind of generic programs, that's very competitive business, and it's the easiest business to get into because you convert some curriculum and you put some advertising out, you collect some leads and you convert those leads. That's the easy way to do this, but it's very competitive. When you go all the way back to what the conversion rates on those leads used to be to compare to what they are today, if the efficiency – it's still efficient. But it's near the efficiency that it has 10 years ago, 12 years ago. And so we still do some of that. But a lot of what we do is more from a branding perspective. And then we rely on a lot of the relationships that we have to produce students and we have just found that the quality of students that we produce because we have these partnerships is much higher, which is why we have good graduation rates, low cohort default rates. Our average student debt amounts are under the state universities.

And so is it a crowded market? Yes. Are more people entering that advertising market? Yes. But we have a very, very efficient model that combines both that with this partnership model, and so we're not concerned that we can't continue to grow the way we have.

Gregory Pendy
Analyst, Sidoti & Co. LLC

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Got it. That's helpful. Thanks.

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

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

Operator: And this concludes today's conference. Thank you for your participation. You may now disconnect.