Adtalem Global Education, Inc.
Fourth Quarter Fiscal Year 2023 Earnings Call
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Presenters
Stephen Beard, Chairman, President and Chief Executive Officer
Robert Phelan, Vice President and Chief Financial Officer
Jay Spitzer, Vice President of Investor Relations

Q&A Participants
Jeff Meuler - Baird
Jeff Silber - BMO Capital Markets

Operator
Greetings, and welcome to the Adtalem Global Education Fourth Quarter Fiscal Year 2023 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Jay Spitzer, Vice President of Investor Relations. Thank you, sir. You may begin.

Jay Spitzer
Good afternoon, ladies and gentlemen, and welcome to our earnings call for the fourth quarter and fiscal year 2023 results. On the call with me today are Steve Beard, President and Chief Executive Officer of Adtalem Global Education; and Bob Phelan, Chief Financial Officer.Before I hand you over to Steve, I will, as usual, take you through the legal Safe Harbor and cautionary declarations.

Certain statements and projections of future results made in this presentation constitute as forward-looking statements that are based on current, market, competitive, and regulatory expectations and are subject to risks and uncertainties that could cause actual results to vary materially. We undertake no obligation to update publicly any forward-looking statement after this presentation, whether as a result of new information, future events, changes in assumptions, or otherwise. Please see our latest Form 10-K and Form 10-Q for our latest discussion of risk factors as they relate to forward-looking statements.

In today's presentation, we'll use certain non-GAAP financial measures, and we refer you to the appendix in the presentation materials available on our Investor Relations website for reconciliations to the most directly comparable GAAP financial measures and related information. You will find a link to the webcast on our Investor Relations website at

investor.adtalem.com. After this call, the presentation and webcast will be archived on the website for 30 days.

I will now hand you over to Steve.

Stephen Beard

Thanks, Jay. Good afternoon, everyone and thank you for taking the time to join our fourth quarter and fiscal year 2023 earnings conference call.

Fiscal year 2023 was another pivotal year for Adtalem as we achieved a number of significant key milestones;

For starters, we completed the integration of Walden and our legacy institutions into a complementary portfolio of like-kind institutions, all with the center of gravity in healthcare. We centralized our marketing and student experience capabilities into centers of excellence where we can align and deploy best practices enterprise-wide and realize economies of scale in our efforts to enhance the student journey.

We achieved our two-year $60 million cost synergy program, creating significant efficiencies and a more profitable operating model. We expanded adjusted EBITDA margin to approximately 24 percent for fiscal year 2023, which is an increase of 200 basis points, compared to fiscal year 2021.

We've identified opportunities to invest for future growth, generate durable operating leverage, position ourselves to sustainably grow student enrollment, improve persistence, and further expand our margin profile.

Finally, we formally launched our Growth with Purpose strategy, which focuses on improving and accelerating our performance across the critical value-creating activities of the business, while continuing to expand access for aspiring students and delivering high-quality academic outcomes. We're still early in that journey, Growth with Purpose is already building total enrollment momentum.

U.S. healthcare is struggling with a massive talent deficit that threatens the quality of care and exasperates health inequities in communities across the country. We believe that we can uniquely reposition Adtalem to serve as a scaled solution in addressing these challenges. Our post-secondary programs are rigorous, responsive to the workforce needs of the healthcare industry, and serve to expand access to attractive careers through the delivery of high-quality academic outcomes for our over 75,000 students and for the over 25,000 diverse students that we graduated in 2023. Our graduates are serving communities across the country – both urban and rural – and doing so in some of the best known and most highly regarded health systems in the country.

It's no secret that opportunities for aspiring clinicians are exclusive and scarce. At Adtalem, we address the current and growing provider shortages at scale through an inclusive and access-focused model that we believe is unrivaled today.

With respect to our results, we ended fiscal year 2023 ahead of our most recent expectations and surpassed the goals that we established at the outset of the year.

Full year revenue of $1.45 billion was up 5.0% for the year. Total enrollment trends have consistently improved throughout the year. Adjusted earnings per share ended the year at $4.21, increasing 35% year-over-year as our transformation and operational initiatives are generating their intended positive returns.

Over the course of the year, we generated $169 million of free cash flow and returned $140 million to our owners through share repurchases. Our balance sheet continues to remain strong, closing the year with $274 million in cash on hand and net leverage of 1.3 times.

As I mentioned earlier, we launched our Growth with Purpose strategy, which is designed to expand access and deliver enhanced student outcomes through optimizing five pillars of value creation: marketing, enrollment, retention, pricing, and programs.

In the fourth quarter and throughout the year, our refined marketing strategy to delivered good results through the application of data-driven insights, refreshed brand campaigns and a more balanced approach to investments across the marketing funnel. We're generating increased brand awareness, connecting with potential students at a deeper and more meaningful level, and, importantly, educating thousands about our flexible programs that meet students where, when, and how they learn best. The team is creating opportunities for our institutions to grow. As inbound demand grew quarter-to-quarter with key programs such as our RN to BSN program, our standard BSN program, and our counseling programs leading the way.

Increased demand has translated to double-digit, year-over-year inquiry growth, with all of our institutions achieving positive year-over-year inquiry growth in the fourth quarter.

As part of the effort to sustainably grow enrollment, we remain committed to enhancing the student experience. Our enrollment teams have focused on streamlining and personalizing our engagement with prospective and existing students alike. In 2023, we launched our proactive, affirmative registration process, which engaged over 18,000k students. Simplifying the process to enroll in classes for the upcoming term. In addition, through our self-service digital assistant tool for students, we have addressed over 750,000 Chamberlain and Walden student queries since January in real time with a success rate of over a 90%. These automated tools provide answers 24/7, affording our student facing advisors more bandwidth and more opportunity to focus on engaging in personalized, high-touch conversations with current and prospective students alike.

Chamberlain University is expanding access both physically and online in markets with some of the highest nursing shortages. For example, in Atlanta, the demand for access to our curriculum is outpacing capacity at our existing campus. This September we will welcome our first cohort of students at our new hybrid campus in Stockbridge, Georgia. At scale, the Stockbridge campus will be able to accommodate up to 600 students, including 200 evening and weekend students. Collectively, these two locations will train up to 2,000 students, positively impacting Georgia's nursing shortage. And as we've noted previously, Chamberlain's campus footprint keeps us at the forefront of providing maximum flexibility for students with online, hybrid, and campus-based pathways.

We continue to be pleased with progress at Walden. Our investments in brand and shifts in marketing mix have created momentum in new student growth, which was up over double digits in the fourth quarter on a year-over-year basis. And, just as importantly, this growth was led by our nursing and social and behavioral sciences programs. In addition, we are particularly proud of the gains Walden continues to achieve in student persistence, which was up again in the fourth quarter. Moreover, the Higher Learning Commission in July renewed Walden's national accreditation for a 10-year period.

Shifting to Med/Vet.
The Ross University School of Veterinary Medicine continues to operate near capacity, with high persistence and matriculation. Inbound inquiry for both of our medical schools, the Ross University School of Medicine, and the American University of the Caribbean School of Medicine, remain high and up year-over-year in the fourth quarter. However, total enrollments for the quarter were lower year-over-year, driven by a combination of factors, including a large graduating cohort, a sizable cohort on leave to prepare for Step 1 USMLE, and a challenging May intake cycle that fell short of our expectations.

We're obviously proud of the fact that we graduated a greater number of medical professionals this quarter compared to last year and that we were able to permit our students to persist in our programs through the pandemic.

But to be sure, we have identified the conversion challenges contributing to the May intake shortfall and are already executing on remediation plans. I am confident in the efficacy of those plans and expect total enrollment trends at Med/Vet to improve by the back half of 2024, returning to total enrollment growth as we exit the year.

Temporary challenges notwithstanding, the value proposition of our medical schools remains strong. Focus on access, high-quality academic outcomes, including a five-year cumulative Step 1 USMLE pass rate of 89% from 2018 to 2022, as well as 98% first-time residency attainment rate for 2022-2023, has tremendous appeal for aspiring physicians. This value proposition, combined with our current focus on operational excellence, gives me confidence in the long-term growth prospects of our medical programs.

In the quarter, we bolstered our in-house adaptive learning capabilities by entering into a perpetual licensing agreement with Edapt Technologies. Edapt is an adaptive learning platform that leverages proprietary data to enable students to learn at their own pace in the classroom and beyond. The software creates reinforcement learning loops and continually updates with real-time assessments to improve the mastery of content, focusing on positive individualized student outcomes. We have been testing and iterating this adaptive learning tool at Chamberlain with over 13,000 nursing students and we are really encouraged by the results. This is another unique differentiator driving personalized success as our students prepare for the NCLEX exam. In addition, we've already identified a number of additional use cases for adaptive learning tools to be applied across our institutions.

On pricing, our optimization strategy is working. At Walden, the Believe and Achieve scholarship program has been well received by students, outpacing our expectations as it incentivizes and rewards matriculation and student success. This is a great example of a win-win innovation of the kind being developed at Walden, lowering the cost of net tuition, financially incentivizing student matriculation to graduation, and driving the realization of the lifetime value of enrollment.

And finally, our fifth strategic pillar, programs. Walden's competency-based Tempo program saw a 35% growth in new enrollments during the fourth quarter as a result of a new simplified strategy to strengthen the program positioning and launching a data-driven marketing campaign.

Over at Chamberlain, specialty-focused tracks continue to generate significant interest with our MSN Psychiatric-Mental Health Nurse Practitioner program now enrolling over 1,700 students since launching two years ago. We are also excited to bring to market our Home Health and Kidney Care, Practice Ready, Specialty Focused, education models, which are being developed in partnership with leading providers like BrightStar Care and DaVita.

With that, let me now provide some color on our outlook for fiscal 2024 that builds on the guide we provided during our Investor Day back in June. We are raising the low end of our guidance range for adjusted EPS and now anticipate adjusted earnings to be $4.20 to $4.40, while maintaining our revenue range of $1.46 billion to $1.52 billion.

Fiscal 2024 is off to an encouraging start, driven by momentum in new enrollment and ongoing improvement in student persistence.

Taken together, our strong foundation, integrated operating model, and Growth with Purpose strategy strike an optimal balance between investing to accelerate near-term performance and expanding profitability in the long term. I am confident in our ability to return to total enrollment growth while maintaining our industry-leading margin profile during fiscal year 2024.

In closing, I truly believe that the best way to positively impact the future of healthcare is to provide more people the opportunity to change it. We are uniquely positioned to help elevate

the standards of care that's compassionate and culturally competent by changing the face of those who deliver that care.

As a mission-driven organization, we remain committed to advancing health equity and delivering diverse, highly qualified healthcare clinicians at scale.

To that end, I want to thank the nearly 10,000 colleagues who continue to make Adtalem a force for good. It's your exemplary leadership, passion, and willingness to go above and beyond which upholds our commitment to our students and delivers positive outcomes.

I will now hand the call over to Bob to take you through the fiscal year 2023 fourth quarter and fiscal year 2024 outlook in greater detail. Thank you.

Robert Phelan
Thanks, Steve, and hello, everyone. Our fourth quarter and full-year results reflect our commitment to drive superior student outcomes, while delivering financial results. The momentum from our strategic initiatives continues to result in fiscal year top- and bottom-line growth as well as robust cash generation.

I'll start with a review of our financial results and key drivers for our performance in the fourth quarter and for the full year. Later in my remarks, I will discuss our expectations and assumptions for fiscal year 2024.

Starting with the top line, revenue in the fourth quarter increased by 1.1% to $364.6 million, driven by growth at Chamberlain and Walden, partially offset by Med/Vet.

For the full year, revenue was $1.45 billion, up 5%. The year-over-year revenue growth was driven primarily by the timing of the Walden acquisition as fiscal year 2023 had approximately one month of non-comparable contribution as well as revenue growth at Chamberlain and Med/Vet, a direct result of the momentum from our Growth with Purpose initiatives.

During the quarter, consolidated adjusted operating income was $69.9 million, and adjusted EBITDA was $83.3 million. This compares with $89.6 million, and $104.7 million respectively during the prior year. Adjusted EBITDA margin was 22.8%.

For the full year, consolidated adjusted operating income was $287.6 million, an increase of 7.5% versus the prior year, resulting in an operating margin of 19.8%, an increase of 40 basis points year-over-year. Adjusted EBITDA for the full year was $343.4 million, an increase of 4.5% compared with the prior year. We continued to achieve a high adjusted EBITDA margin with the rate at 23.7%, while continuing to make strategic investments for sustainable long-term growth.

I'm also happy to report that we successfully achieved our target of delivering $30 million in cost synergies, thus realizing our target of $60 million in synergies by the completion of the second anniversary of the Walden acquisition.

Adjusted net income for the quarter was $45.3 million and adjusted earnings per share was $1.03. For the full year, adjusted net income increased by 26% to $192.2 million resulting in adjusted earnings per share of $4.21 or a 35% increase compared with the prior year, as adjusted operating income growth, lower adjusted interest expense and diluted shares outstanding, was partially offset by a higher adjusted effective tax rate.

Next, I will discuss financial highlights by segment.

Chamberlain reported fourth quarter revenue of $144.5 million, an increase of 3% when compared with the prior year, driven by growth in enrollments and fee revenue. Total student enrollment during the quarter increased 1.2% compared with the prior year due to growth in pre-licensure and post-licensure nursing programs as well as higher persistence across the segment.

Adjusted EBITDA decreased by 14.1% to $41.1 million as our underlying operational leverage was more than offset by the incremental investments in our marketing brand campaign and other expenses.

Turning to Walden, revenue in the fourth quarter was $138.0 million, an increase of 0.7% when compared with the prior year, driven by growth in nursing and social and behavioral health programs new student enrollment, and our continued optimization of our net tuition pricing model. Total student enrollment during the quarter decreased 4.8% compared with the prior year, primarily attributable to declines in non-healthcare programs, partially offset by higher persistence across the segment. Walden's total enrollment was negatively impacted by 2.4% as a result of an operational initiative to eliminate certain off-cycle start-dates as we previously discussed last quarter.

Adjusted EBITDA decreased 9.4% to $35.3 million as segment operational efficiencies were offset by investments in marketing and brand campaigns.

In the Medical & Veterinary segment, revenue in the fourth quarter decreased 1.5% to $82.1 million due to lower medical enrollments which were largely offset by pricing favorability. Total student enrollment decreased 8.2% compared with the prior year, primarily due to lower-than-expected May starts at the medical schools. Our veterinary school continues to operate near capacity.

Adjusted EBITDA decreased by 37.1% to $14.7 million, as we experienced lower revenue, made investments in our brand campaigns for the three institutions, and incurred higher costs across the other expense categories.

As Steve mentioned in his remarks, we are already executing on remediation plans to improve enrollment in our medical schools and anticipate total enrollment trends to improve by the back half of 2024, returning to total enrollment growth exiting the year. We also remain focused on cost discipline and expect to maintain attractive margins in our Medical & Veterinary segment.

Shifting gears to cash flow and balance sheet -
During the year, we continued to drive significant improvements in free cash flow which was $169 million for fiscal 2023, representing a 27% increase year-over-year, primarily due to improved operating results and lower interest expense.

We executed against our disciplined capital allocation philosophy during fiscal year 2023, investing in organic growth, while reducing debt and returning capital to our shareholders.

More specifically, we paid down $150 million of our Term Loan B in the first half of fiscal year 2023, resulting in gross debt of $708 million at the end of fiscal 2023. This resulted in a 1.3 times net leverage ratio at year end.

We also repurchased 3.2 million shares during the year, and $127 million returned to shareholders against our Board-authorized $300 million authorization, with $13 million to close out the prior 2022 accelerated share repurchase program.

Actions that we believe have increased long-term intrinsic value for the benefit of our owners.

Turning to our fiscal year 2024 guidance-

Over the past two years, we have consistently delivered on commitments to our stakeholders, and continued to operate with greater efficiency, which has positioned us well for the future.

As Steve mentioned earlier, we are reaffirming our revenue guidance to be in the range of $1.46 billion to $1.52 billion, representing low- to mid-single-digit growth. We are raising the low end of our adjusted earnings per share by $0.05 to be in the range of $4.20 to $4.40.

In addition, we expect to continue to generate strong cash flow, which will enable share repurchases and balance sheet flexibility.

The phasing of our results during fiscal 2024 is worth noting. As Steve mentioned in his remarks, we are forecasting total enrollment trends to continue to improve throughout the year. In turn, we anticipate revenue to follow this trend with a greater acceleration to occur in the back half of the year. Further, we are currently in a period of incremental growth investments as we deploy our Growth with Purpose strategy and take advantage of the opportunities that we see in the marketplace today, which is causing a short-term reduction to our adjusted EBITDA margin profile.

As we stated at our Investor Day, we anticipate to maintain our high level of profitability and margin profile for the full year but with higher investment levels earlier in the year and the accelerated revenue growth in the back half of the year. Our investments are already generating their intended returns and will build throughout the year.

To conclude, I'm confident in our ability to grow as a purpose-driven organization, creating tremendous shareholder value. We have a clear path forward that we believe will yield benefits for all our stakeholders for years to come. With that, I will now turn the call over to the operator for Q&A.

Operator
Thank you. We will now conduct our Q&A session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

One moment, please, while we poll for questions. And our first question comes from Jeff Meuler with Baird. Please state your question.

Jeff Meuler
Yeah, thank you. Good afternoon. So, for the med schools, I heard you that the inquiries are good. Can you just be any more specific on, what were the execution problems, and what are the remediation plans?

Stephen Beard
Yeah. So, as we were careful to point out, we don't believe there's a macro-demand challenge in the medical schools. We had a confluence of three different dynamics that sort of hit us all at once. We had a weaker-than-anticipated intake cycle in May. We also had a larger graduating cohort this year. And in addition, we've got a larger-than-typical cohort of students that are out preparing for Step 1 MLE.

When you take those together, that's what results in the decline in total enrollment at the two medical schools. We believe the graduation piece is not a problem. In fact, it's something we're quite proud of. We are working aggressively with our students to get them through Step 1 MLE and believe that won't be a problem either.

And with respect to the new enrollment piece of this, this is really focused on challenges that we had in the mid funnel and in the lower funnel, largely related to really converting inquiry to applicant to enrollment. So, we've actually got a new leader of enrollment at Med/Vet who joined us not long ago. We feel really good about some of the remediation steps she's put in place.

And as we said on the prepared remarks, we expect that total enrollment trend to improve by the time we exit the year because we think the new enrollment opportunity is there in the marketplace. Obviously, the graduation dynamic is a one-time event. And we are really, really good at getting folks ready for Step 1 MLE and on to their clinical rotations.

So, it really is, Jeff, working to get better at what we're doing in the lower end of the funnel, once folks are in the system as applicants, or once folks are in the system with inquiries, and ensuring

that we capture all of that in a more timely fashion before folks decide to go in a different direction. But we are on top of it.

Jeff Meuler
Got it. And then, I don't know, Bob or Steve, can you just help us with expected segment growth rates. You kind of gave us that it's going to take some time to get Med/Vet back to total enrollment. I picked that up at the Investor Day that Walden is a good news story, and it looks like it's an even better good news story based on these results than I sensed at that time. So, just anything you can say in terms of like expected segment growth, especially for Walden, which looks like it's trending particularly well.

Stephen Beard
Yeah. We're feeling really good about the momentum at Walden. And, just as importantly, we're really quite excited about where that momentum is happening inside of Walden. We're seeing the most growth in the nursing programs as well as in the behavioral health programs. And as you know, that was a central feature of the thesis behind the acquisition.

Chamberlain obviously is well positioned to take advantage of a normalized demand environment, given its scale. And we're seeing really, really great traction in our various BSN modalities, both hybrid, online, and, on-campus. And just as importantly, we continue to take share in RN to BSN, even though that as a category is not a growth area for nursing broadly defined.

Jeff Meuler
Okay, just one more on Chamberlain. The total enrollment growth at Chamberlain decelerated. I know it was just a little bit. But it decelerated a little into an easier comp. And it feels like the new enrollment commentary there has been better for a couple of quarters now, so just any explanation, any timing factors as to why there was a little deceleration in Chamberlain total enrollment.

Stephen Beard
Largely graduation driven.

Jeff Meuler
Okay.

Stephen Beard
Yeah, it was really a good problem to have, but larger than the typical graduation, almost a huge BSN cohort that came thorough this year, but again, nothing that we believe is going to decelerate the overall total enrollment momentum for Chamberlain across the full fiscal year.

Jeff Meuler
Okay. Thank you.

Stephen Beard
Of course.

Operator
Thank you. And our next question comes from Jeff Silber with BMO Capital Markets. Please state your question.

Jeff Silber
Thank you so much. You mentioned some of the investments that you're going to be doing this year. Can you remind us where these investments are? Are they specific to any one of the different segments and what the pace of investing will be over the course of the fiscal year?

Stephen Beard
Right. So, the investments we made, and consistent with the Growth with Purpose strategy that we laid out at Investor Day. They are investments that cut across five categories of value-creating activities: marketing, enrollment, retention, pricing, and new programs.

In terms of the pacing of those investments, Bob, keep me honest here. But we expect those investments will be heavier in the first half of the fiscal year, particularly those that relate to marketing, than they will be in the back of the year. But these are investments that we also have a high degree of confidence will drive organic revenue growth over the course of the fiscal year.

Jeff Silber
Okay. My next question is just regarding enrollment trends, both from new and total enrollments. If there's any color--if you can provide any color in terms of how the fiscal year has started, I want to see what kind of momentum you have going into this year.

Stephen Beard
Yeah. As you know, we don't break out new enrollment. But what I can tell you qualitatively, Jeff, is that lots of the gains we had seen in the back half of last fiscal year. Coming into this fiscal year was really driven by some fantastic improvements in persistence rates across all the institutions, but particularly at Walden. And now, we are beginning to see a similar dynamic in new enrollment.

And that's really the combination that we're looking for, driving improvements in persistence, where we get the lifetime value of our students, and our students get the benefit of their investment by matriculating through to graduation, and bringing new students in in a normalized environment that drives up that new enrollment number. So, while we don't break it out sequentially, it started with persistence, and now we're seeing the tailwinds in new enrollment at Chamberlain and at Walden.

Jeff Silber

All right. If I could just sneak in one more. I know you raised the lower end of your adjusted EPS guidance for the current fiscal year. Was there anything specifically driving that? I'm just curious what happened since Investor Day, if there's anything that's changed? Thanks.

Stephen Beard
I think we're just feeling really good about what we're seeing by way of market signals around new enrollment. And we also think we've got even more headroom to improve persistence. And so, we're just more confident coming into the new fiscal year. We also, as you know, we think we're pretty good at managing the cost line across the business and investing thoughtfully.
So, we thought it made sense to tighten the range because we're feeling good about where we are.

Jeff Silber
Okay, fair enough. Thanks so much.

Operator
Thank you. There are no further questions at this time. I would like to turn the floor back over to Steve Beard for closing remarks.

Stephen Beard
As a matter of closing, I just want to thank all of our colleagues at Adtalem for all of the hard work in fiscal 2023. We are super excited about what we have on tap for fiscal 2024. The Growth with Purpose strategy kicks off here in earnest, and we're excited that our teams are excited to really magnify the impact we're making for students across all of our programs and institutions. And so, my sincere gratitude to all the great colleagues here at Adtalem.

Operator
Thank you and this concludes today's call. All parties may disconnect. Have a good day.