Adtalem Global Education, Inc.
First Quarter Fiscal Year 2024 Earnings Call
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Presenters
Stephen Beard, Chairman, President and Chief Executive Officer
Robert Phelan, Vice President and Chief Financial Officer
Jonathan Spitzer, Vice President of Investor Relations

Q&A Participants
Jeff Meuler - Baird
Ryan Griffin - BMO Capital Markets

Operator
Greetings, and welcome to the Adtalem Global Education First Quarter Fiscal Year 2024 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, Jonathan Spitzer, VP of IR. Thank you, Jonathan. You may begin.

Jonathan Spitzer
Good afternoon, ladies and gentlemen, and welcome to our earnings call for first quarter 2024 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 our 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 a discussion of risk factors as they relate to forward-looking statements.

In today's presentation, we'll use certain non-GAAP financial measures. 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 of the webcast will be archived on the website for 30 days.

I will now hand you over to Steve.

Stephen Beard
Thank you, Jay. Good afternoon, everyone, and thank you for taking the time to join our first quarter fiscal year 2024 earnings call. We delivered a strong quarter as our Growth with Purpose strategy, a three-year initiative focused on driving organic revenue growth, has delivered top and bottom-line results ahead of our expectations. It has also returned us to total enrollment growth while continuing to deliver outstanding student outcomes.

In the first quarter of fiscal 2024, revenue was $369 million, up 4% versus prior year, and adjusted earnings per share was $0.93, up 3% versus prior year. Accelerated performance across our five operational pillars, marketing, enrollment, retention, pricing, and programs affords us the opportunity to capitalize on our market-leading scale and our market response and healthcare focus.

Our emphasis on enhancing the student experience and investing in innovative and differentiated capabilities is showing up in our quality measures, our academic outcomes, and improved persistence rates. As a result, Adtalem graduates are highly employable and attractive in demand professions and far less likely to default on their student loans compared to their counterparts at post-secondary institutions, private, public, and for-profit alike.

Our brand campaigns that launched last fiscal year are delivering incremental spend efficiencies and organic inquiries this quarter as we optimize our use of data-driven tools and methods. Our successful execution has resulted in double-digit inquiry growth year-over-year at all of our institutions. In addition to optimizing our marketing capabilities, we are simplifying and streamlining the student application experience to make admissions as user-friendly as possible. These efforts have driven encouraging results with increased year-over-year application conversion rates.

Moving onto results by segment, across our five institutions, we're striking an optimal balance between investing to accelerate near-term performance and expanding profitability over the long-term. Chamberlain and Walden were the primary drivers of a strong performance in the first quarter, and we remain confident that the financial performance of those institutions will continue to accelerate for the balance of the fiscal year.

In the Med/Vet segment, Ross University School of Veterinary Medicine continues to operate near capacity. As for our medical schools, we've diagnosed the conversion challenges and are executing remediation efforts to return those institutions to growth. Based on early indications, we expect total enrollment trends to improve over the remainder of the fiscal year.

Chamberlain's brand recognition, combined with its ability to scale in-demand programs and innovative specialized nursing curriculum, continues to position it as the leading school of nursing in the U.S. Our campus-based, pre-licensure Bachelor of Science in Nursing degree program continues to resonate, with over 12,500 students enrolled.

The recently launched BSN Online option achieved year-over-year triple-digit growth and is swiftly approaching 1,000 students. The next generation NCLEX exam is now being administered to pre-licensure students, and we are leveraging proprietary adaptive learning technology to prepare our BSN students for the exam.

Additionally, our Practice-Ready, Specialty-Focused model, coupled with our Social Determinants of Learning framework, is creating an unparalleled offering in nursing education. Practice-Ready. Specialty-Focused.^{TM} has provided specialized training to more than 1,000 BSN students through a proprietary learning model that better prepares students for the specialty work they will take on within U.S. healthcare. We have expanded this program to all 23 Chamberlain campuses, broadening access for our students, while addressing areas of acute nursing shortages.

At Walden, we've made significant progress toward regaining our leadership position in online education. Our brand investments and shifts in marketing mix continue to show momentum in new student growth, which is at double digits year-over-year for the second straight quarter. This successful execution has resulted in elevated demand at Walden, led by our healthcare programs, specifically social and behavioral sciences and nursing. We continue to invest in expanding those programs, which we believe positions us for long-term growth. Thanks in part to enhanced data-driven marketing capabilities, Walden's competency-based Tempo program grew new enrollments by 50% year-over-year. Also of note, Walden's 69th commencement conferred more than 6,500 doctoral, master's, and bachelor's degrees to students from all 50 states and for more than 40 countries. Nearly 35% of those degrees were for post-licensure nursing programs. And we're especially proud to say that more than half of the graduates who reported their race identified as being from underrepresented minority groups.

Ross Vet continues to operate near capacity, addressing the critical need for veterinarians in the U.S., and through our Growth with Purpose strategy, we're executing on new initiatives designed to further scale our program to meet the needs of the animal health community in the U.S. At our medical schools, we've identified opportunities for improving performance and are executing on remediation plans, including the restructuring of our enrollment and academic support teams to enhance the student journey.

Starting in October, to meet the needs of our medical students, we commenced a 10-week Capstone program designed to improve their preparedness for the Step 1 USMLE exam, which then allows them to progress on to core clinicals. We're confident that the actions we're taking at the medical schools will improve total enrollment trends over the course of this fiscal year.

As I said at the outset, our Growth with Purpose strategy is driving top and bottom-line performance ahead of expectations, and we remain confident that these trends will accelerate over the course of the year. Accordingly, we are raising our fiscal 2024 guidance. We now expect revenue to be in the range of $1.47 billion to $1.53 billion and adjusted EPS to be in the range of $4.25 to $4.45.

We remain optimistic about our future and the foundation we've built for the students we serve. Adtalem is well-positioned for success as the leading healthcare educator and a systemically important component of U.S. healthcare. The successful execution of our Growth with Purpose initiatives drive enrollment, enhance student outcomes, and propels our graduates towards rewarding careers. And this is what drives Adtalem's impact on our communities, and we remain enthusiastic about what lies ahead.

Now, I'll turn the call over to Bob for a further discussion of our financial results.

Robert Phelan
Thanks, Steve, and hello, everyone. Our first quarter results reflect strong demand for our programs and our continued focus on enhanced student outcomes. I'll begin with a review or our financial results and key drivers for our performance in the first quarter. Later in my remarks, I will discuss our expectations and assumptions for the balance of fiscal 2024.

Starting with the top line, revenue in the first quarter increased by 4.1% to $368.8 million, driven by growth at Chamberlain and Walden, partially offset by Med/Vet as our enterprise-wide Growth with Purpose strategy accelerates.

Consolidated adjusted operating income was $63.3 million compared with $66.8 million in the prior year. Adjusted EBITDA came in at $80.5 million, a decrease of 3.8%, compared with the prior year, resulting in an adjusted EBITDA margin of 21.8% or 180 basis points lower than the prior year, as growth in revenue and operational efficiencies were offset by strategic investments in Growth with Purpose initiatives and other costs.

Adjusted net income for the quarter was $39.4 million, 5.3% lower compared to last year. Adjusted earnings per share was $0.93, or a 3.3% increase, compared with the prior year. Diluted shares outstanding were $4.2 million lower, compared to last year, resulting in first quarter diluted shares outstanding of $42.2 million.

Next, I'll discuss financial highlights by segment. Chamberlain reported first quarter revenue of $142.6 million, an increase of 5.3%, when compared with the prior year, driven by growth in enrollment. Total student enrollment during the quarter increased 5.2%, compared with the prior year, and resulted in continued growth in pre-licensure and post-licensure nursing programs as well as high persistence across the segment.

Adjusted EBITDA decreased by 6.5% to $31.5 million, as our underlying operational leverage was more than offset primarily by investments in student support services to enhance student outcomes and other expenses. We believe these investments will continue to deliver positive returns through higher future persistence rates and academic outcomes.

Turning to Walden, revenue during the quarter was $141.6 million, an increase of 8.2% when compared with the prior year, driven primarily by total student enrollment growth and the optimization of our tuition pricing model. Total student enrollment returned to growth this quarter, up 0.5% compared with the prior year, as strong demand for our social and behavioral health and nursing programs continued to gain traction in addition to high persistence across the segment.

Adjusted EBITDA increased 21% to $35.1 million as transformation and operational efficiencies are generating its intended leverage as we grow revenue.

For the Medical and Veterinary segment, revenue in the first quarter decreased 3.8% to $84.6 million. Total student enrollment decreased 7.5% compared with the prior year due to lower starts at the medical schools, partially offset by the veterinary school, which continues to operate near capacity.

We are focused on our medical schools' remediation plans to improve enrollment in our medical schools over the course of the fiscal year. Adjusted EBITDA decreased by 11.9% to $19.1 million due to lower revenue, partially offset by operational improvements as we execute on our medical schools' remediation plans.

Shifting to cash flow in the balance sheet, our business continues to generate robust operating cash flow. Free cash flow during the quarter was $76 million, which was slightly lower year-over-year, driven primarily by higher CapEx spend of $15 million during the quarter, which is part of our Growth with Purpose strategy intended to improve student outcomes.

Reflecting our disciplined capital allocation philosophy, we maintained net leverage of 1.3x adjusted EBITDA at $708 million in long-term debt. Further, we returned $92 million in capital to our shareholders by repurchasing 2.2 million shares under our Board-authorized share buyback program during the first quarter.

Since the authorization of our $300 million program, we have repurchased shares worth approximately $219 million. Over approximately the last 18 months, we've repurchased roughly 10 million shares, or approximately 20% of our shares outstanding. We believe these investments drive long-term intrinsic value for our shareholders.

Turning to our guidance for fiscal 2024, as we accelerate performance through our Growth with Purpose strategy, we are raising our revenue guidance to be in the range of $1.47 billion to $1.53 billion, representing low to mid-single-digit year-over-year growth. We're also raising our

adjusted earnings per share guidance to be in the range of $4.25 to $4.45, also reflecting low to mid single-digit growth. We anticipate continuing to generate strong cash flow, bolstering our balance sheet strength, and providing us the ability to execute on our capital allocation philosophy.

Let me provide additional context in relation to our fiscal 2024 outlook.
We're forecasting total enrollment trends to continue to improve throughout the year, building on the higher first quarter total enrollment growth. And, in turn, we still anticipate revenue to follow this trend with greater acceleration to occur in the back half of the year.

As it relates to the phasing of our earnings during fiscal 2024, we continue to make incremental growth investments earlier in the year and are anticipating the second quarter to see a slightly higher investment level than the first quarter. This does result in a short-term reduction to our adjusted EBITDA margin profile, specifically in the second quarter, but we anticipate growing our margin profile in the second half of the year as revenue growth accelerates, generating leveraging, resulting in a full-year adjusted EBITDA margin profile of approximately 24%, consistent with prior year and what we shared at our June 2023 Investor Day.

Included within our raised fiscal 2024 guidance is the cost of an incremental $158 million letter of credit that will be placed in early November in accordance with a request by the Department of Education. This new letter of credit will result in an annualized interest expense of approximately $6 million and will be placed through our availability on our existing revolver. This has no material impact to our strategic plans, nor does it impact our strong financial position, highlighted by our low net leverage and our healthy profitability levels and cash flow generation.

In conclusion, our results demonstrate our ability to deliver short-term results, while sustainably investing in the long-term growth targets that we provided at our June 2023 Investor Day. I'm excited about the opportunities and the momentum our team is generating as a purpose-driven organization, creating substantial value for our students and our shareholders.

With that, I will now turn the call over to the operator for Q&A.

Operator
Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate 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.

Thank you. Our first question comes from the line of Jeff Meuler with Baird. Please proceed with your question.

Jeff Meuler
Yeah, thank you. Good afternoon. Apologies if I missed it- did you give Chamberlain new enrollment, or can you give some sense of how that's trending?

Stephen Beard
We did not. We referred to specific programs in the prepared remarks, but we did not give new enrollment for Chamberlain.

Jeff Meuler
Okay. Well, I'll ask it maybe a little bit differently because you just had a 4% revenue growth quarter. You said you expect Chamberlain and Walden progress to continue to accelerate. Those are your largest segments. And there was a comment, I think, about like Med continuing to improve over the balance of the year. And I know you raised your guidance, but the guidance has 1% growth at the low end, 3.5% growth at the midpoint.

Both of those are lower than your Q1 growth. So, I'm not--I guess I'm not understanding what you're signaling because you're talking about--you had a great quarter, you're talking about things further improving and accelerating, and I don't really see it in the guidance. So, I'm not sure what the disconnect is.

Stephen Beard
Sure. So, let me try to address that for you. What I would say is that we had a very good first quarter, feel good about where we were going in terms of the improvements that we think we'll be getting over the balance of the year. But it is the first quarter, so we are really early in the year and wanted to see a little bit longer trend before we take any numbers up further than what we did in the guidance at this point.

The only other thing I would say is that when you get into the back half of the year, your comps are a little bit more difficult than what you had in the first quarter as well, so that's another piece of what enters into that.

Jeff Meuler
Okay. And then, I think there were some changes to gainful employment since your last quarter, and it looks like some of them are beneficial to some of the programs that you operate. So, can you just address that for the audience?

Stephen Beard
Yeah. I think there were two significant changes in the final rule that we view as net positive for us. The first is that Ed included a transition period that allows programs to decrease tuition,

adjust costs, scholarship students in a way that has an impact on the overall debt to earnings calculation, so that's helpful.

Just as importantly, they have provided a longer measurement period for certain types of programs. They've included medical programs and mental health programs, which is helpful to Walden. So, as we think about the rule, we've got opportunities to make adjustments to ensure that programs clear the hurdle for gainful employment.

We are also actively seeking to have our veterinary medicine program included in those programs that have a longer measurement period because their profiles are very similar to the programs that Ed has included in that exception. So, a better outcome than we feared with gainful employment and obviously, we've got a bit of time before that goes into effect. The rule doesn't go into effect until 2024, and the first measurement period isn't until 2025. So, we feel good about where we are vis-a-vis GE.

Jeff Meuler
Okay, perfect. And then, just the last one for me. Just can you address what the metrics are, the drivers of the increasing letter of credit with the Department of Education, or what you need to do, what outcomes you need to have to kind of alleviate that letter of credit?

Stephen Beard
So, as you know, the composite score itself is a sort of bespoke calculation by the Department of Education. One of the nuances of the calculation is that as they look at financial responsibility, you get credit for some assets and not for others. One of the assets that gets excluded, or one category of assets that gets excluded from the calculation, are intangible assets like goodwill. We obviously hung a bunch of goodwill on the balance sheet as part of the Walden acquisition, and that drives down the score. That was not unexpected, and the request for the additional letter of credit was not unexpected. And we managed our credit facility in a way that would commit us to accommodate Ed's request.

But that having been said, we actually think that with the existing letter of credit plus the new letter of credit, we've got a credit protection at Ed that is almost 20% of our Title IV disbursements. We're actually working with Ed to see if there's a way to bring that requirement down a bit because there isn't any real risk to any of our institutions. We're a very financially healthy organization. None of our institutions are at risk of closure. We've got a strong balance sheet.

So, we think the quirks of the rule, while they produced this outcome, we actually think there's a good argument to be had for a somewhat lighter credits approval requirement at Ed. As for the score itself, I'll let Bob give you the specifics. But basically, we would earn our way out of the score, and the score would go up over time on the basis of our earnings because the calculation is done annually on the basis of our audited financial statements. But that's not something that would happen immediately. That's something that would happen over time.

But I think the important takeaway is that we are organized financially such that we can accommodate this request from Ed. And we think we have good arguments for why the ask here is probably larger than what Ed needs to be comfortable about the financial responsibility of our institutions and programs.

Jeff Meuler
Okay. Thank you.

Stephen Beard
Sure.

Operator
Thank you. Our next question comes from the line of Jeff Silber with BMO Capital Markets. Please proceed with your question.

Ryan Griffin
Hi. Thank you. This is Ryan on for Jeff. On the guidance provisions, does the higher outlook include any more incremental investment in the Growth with Purpose initiatives from what you had said last quarter? I was just thinking that, given some of the operating leverage in the business, the adjusted EPS impact on the revenue rate would be a little higher.

Robert Phelan
Let me address that, if I could. The first thing I would say is that, yes, it's a good point that you're raising. And what I would say is that, first off, the improvement that we saw in the first quarter is really--there's a little bit of a shift in terms of what we had in terms of the Growth with Purpose expenses going into the second quarter. So, a little bit of that is a shift in timing with the expenses. We also did anticipate we were going to have a little bit higher expenses in the first place in the second quarter, so we have that as well.

The other thing I was going to mention is that while the EPS would increase from the additional revenue, you also have a decrease coming from the additional interest expense on the letter of credit that Steve was just talking about that we've had to put in. So, that letter of credit is going to be about $158 million, a little bit under a 4% rate. And so, that's going to cost us about $4 million this year and $6 million on an annualized basis. So, I think that's a part of what you would need to factor in as well.

Ryan Griffin
Got it. And then, just any updated thoughts, sorry if I missed this, on the pacing of the investments throughout the year. Is it still second-half weighted? And would you consider giving us any sequential persistence or other ROI metrics on some of the spend there in future quarters?

Stephen Beard
So, what I would mention is that, as I just had said, we are having a little bit more of a shift of some of those expenses into the second quarter from the first, okay? So, that's one point that I would make. But, when it comes to the acceleration of revenue, we still believe that the back half is where we're going to see more of a ramp up from the initiatives that we've implemented at this point.

Ryan Griffin
Got it. Thank you. And then, just the last question for me. Do you have any color you could give on some of the pricing? I noticed in the queue that you were taking pricing up quite a bit in some of the med schools, and the revenue per student at Walden looks like it went up a bit on the--I think you mentioned the optimization of the student pricing.

Stephen Beard
Yeah, but, I think the important thing to sort of keep in mind is, while we have taken pricing up in some areas of the business, we've also taken pricing down in other corners of the business to ensure we're competitive in certain programs where we were maybe a bit higher than we needed to be. But with respect to Walden, in particular, I'll let Bob speak to the dynamics there because it goes beyond pricing.

Robert Phelan
Yeah, the thing I would say, there's a couple of other things happening with Walden. So obviously, with the enrollments being up what they are and then the revenue increase, there's a gap there. It's a combination of things, though. It's not just pricing. There's also the fact that average credit loads are up, so the average credit hours or credit loads that students are carrying is a little bit higher as well. And that's a part of what also drives then the revenue per student to be higher.

In addition, we do have a little bit lower discounts as well. We were pretty high last year in the first quarter on discounts and a little bit lower on that as well this year. So, there's definitely a couple of factors that are at work aside from just pricing on the Walden side.

Ryan Griffin
Great. Thank you so much.

Stephen Beard
Thank you.

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

Stephen Beard

Thank you. I just want to take a moment to thank all of our colleagues across Adtalem, a very strong start to the year, very optimistic about what lies ahead. In particular, I want to call out our colleagues at Walden. They've gone positive total enrollment year-over-year. That is no small accomplishment.

We are bullish on that brand in that institution, and we're excited for them to find ourselves where we are today. So, my thanks to all of our colleagues. A special shout-out to our team at Walden. And we look forward to speaking with you next quarter.

Operator
Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.