Adtalem Global Education, Inc.
Second Quarter Fiscal Year 2024 Earnings Call
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Presenters
Stephen Beard, President and Chief Executive Officer
Robert Phelan, Sr. Vice President and Chief Financial Officer
Jonathan 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 Second 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, Vice President of Investor Relations. Thank you, Mr. Spitzer. You may begin.

Jonathan Spitzer
Good afternoon, and welcome to our earnings call for the second quarter of fiscal year 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 our 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 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 material available on our Investor Relations website for reconciliation to the most directly comparable GAAP financial measures and related information. You will find a link on the webcast on our Investor Relations website at

investors.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
Thanks, Jay, and thank you to everyone for joining us today. We recognize this call was rescheduled on relative short notice, but in light of the short seller report issued this morning, we thought it was important to share our results and outlook with you as soon as possible. Let me briefly address the short report before turning to our results and guidance.

As you likely saw, earlier today, a noted short seller issued a 50-plus page report on Adtalem. This firm never attempted to engage with us to confirm the veracity of its claims, and importantly, the firm acknowledges holding a short position in Adtalem and therefore stands to realize significant gains in the event that Adtalem stock price declines and will do so at the expense of our shareholders.

Upon an initial review of the report, we believe that the short seller's claims include a number of statements that are inaccurate and misleading. Many of them also appear to be a rehash of legacy issues the company has addressed previously. Our five institutions have long enjoyed strong academic outcomes, and over the last few years, we've made significant investments in strengthening those outcomes and improving the student experience.

For example, we have streamlined the enrollment process and improved the student journey through enhanced adaptive learning technology and student support capabilities. We've also optimized pricing across our portfolio with scholarships, such as the Believe and Achieve scholarship, which incentivizes and rewards matriculation and student success. We continue to be responsive to the market with the scaling of new programs to meet the needs of a dynamic labor market.

Our relationships with our creditors and regulators remain constructive, and we are confident in the long-term viability of our programs. Walden University received a Notice of Investigation and a Request for Information from the Department of Education. However, the Department has not accused Walden of any wrongdoing. We are fully cooperating with the Department's request. However, there has been no impact on our programs, students, or operations.

Our Board of Directors and our leadership team are confident in our strategy, our reporting, the breadth and depth of our offering to students, and the outside social impact of our graduates. Our strong academic, operational, and financial performance, which we'll address momentarily, shows that we're on the right path for long-term growth and value creation. As we continue to grow and deliver on our commitments, we will continue to serve and act in accordance with our values and high ethical standards.

Now, let me turn to our quarterly results. We delivered another strong quarter with robust organic revenue growth, improved operational efficiencies, and high-quality student outcomes. Execution against our Growth with Purpose strategy yielded returns above our expectations, with total enrollment up 6.2 percent. In the quarter, revenue was $393 million, up 8.4 percent versus the prior year, generating $1.23 of adjusted earnings per share.

As you know, Growth with Purpose is focused on operational excellence, and its continued success flows through our results. We're building momentum across all five pillars of the strategy, affording us the opportunity to solidify our market-leading position and enhance the delivery of our programs.

We remain committed to our mission to provide access to high-quality education to tens of thousands of individuals of all ages, ethnicities, and backgrounds, to achieve their professional ambitions at a time when the value proposition for post-secondary higher education is increasingly questioned. We continue to invest in expanding our market-leading reach, physically and online, creating additional opportunities where the need far outweighs the current offerings.

Our institutions are connecting with prospective student employers, fostering a culture of belief in achievement and success. Our agility and scale enable us to share resources and cross curate best practices, driving a superior and differentiated student experience. We continue to find opportunities to further integrate our institutions, reducing student-facing friction (sp).

Starting in July, we leveraged Walden's successful Practicum Management System at Chamberlain University. By November, over 5,000 Chamberlain students had benefited from this system, delivering a major improvement in the student experience, as evidenced by a 5.7 percent increase in practicum applications submitted on time and an 89 percent reduction in in-bound student support cases to advisors.

Moving onto results by segment, our five institutions continue to strike a balance between investing to accelerate near-term performance and expanding profitability over the long term. Chamberlain and Walden were the primary drivers of our strong performance in the quarter, and we remain confident that the financial performance of those institutions will continue into the second half of the year.

Our medical schools remain on track against our remediation plans, and we still expect total enrollment trends to improve sequentially over the remainder of the fiscal year. Chamberlain is already the largest nursing school in the country, and its leadership position in nursing education is expanding.

Our brand recognition and modern curriculum, combined with a reputation with employers, position us as a leading choice for students. Chamberlain's BSN online option continues to offer

the optimal plan of flexibility and experiential learning to students in 32 states. Over 1,100 students are now enrolled, and we see a robust pipeline for sustainable growth.

At our Miramar, Florida campus, the first cohort of our Perioperative Practice-Ready Specialty Focus students graduated last fall, with high praise for the program from our students, faculty, and clinical partners. These alumnae are now filling critical perioperative roles across communities in South Florida. Our ability to scale and meet the healthcare market demand is a testament to our new operating model.

Now turning to Walden, total enrollment grew 7.9 percent, underscoring the success of our work to reestablish a leading position in online education. Our investment, brand, and shifts in marketing mix continue to show momentum in new student growth, up double digits year-over-year for the third straight quarter.

Expanding our reach goes beyond reinvigorating our brand. Walden continues to offer flexibility to working adults for their competency-based program, Tempo, growing new enrollments by over 50 percent in the quarter. Our Believe and Achieve scholarship is gaining significant traction, exceeding expectations, with over 15,000 students participating. Believe and Achieve continues to help students accomplish their educational goals with financial incentives linked to persistence.

Both Walden and Chamberlain continue to be essential institutions in addressing the nation's challenges related to mental health. According to the Substance Abuse and Mental Health Services Administration, one in five U.S. adults will experience mental illness each year. Chamberlain's Psychiatric Mental Nurse Practitioner program enrolls 2,200 students, and Walden's Social Behavioral Health programs enroll 18,000 students. These students represent an important cohort for the future practitioners who will tackle growing demand for behavioral health resources.

Ross Vet continues to operate near capacity, graduating approximately 9 percent of all U.S. veterinarians for the most recent academic reporting year of 2021 to 2022. I'd like to congratulate one of our alumnae, Alea Harrison, DVM '06, who was recently appointed as the Chief Medical Officer at Banfield Pet Care, a longstanding employee partner of ours.

At our medical schools, we're executing on our remediation efforts, and we're encouraged by the restructured enrollment team and new enrollment processes put in place. Leveraging our scale, reach, and reputation, we are creating deep partnerships with local health systems in markets such as Los Angeles, Chicago, Miami, Detroit, and New York through Ross University School of Medicine's Clinical Return Home program.

Prospective RUSM students are now able to apply and have clarity during their enrollment process to know that they can complete clinical rotations within the communities in which they reside. Keep in mind that our medical schools have a multi-month enrollment process from

original inquiry to starting new enrollment. We remain on track to return RUSM and AUC back to growth and expect total enrollment trends to improve over the remainder of the fiscal year.

As we execute, we continue to be thoughtful and disciplined about capital allocation, investing in organic growth and deploying capital as a result of our significant operating cash generation, strong balance sheet, and low net leverage. In January, we completed $300 million--we completed our $300 million February 2022 Board-authorized share repurchase program. Subsequently, we announced a new $300 million Board-authorized share repurchase program, reflecting the strength of our strategic outlook.

Last week, we took additional accretive actions to strengthen our balance sheet by reducing our long-term financial obligations by another $50 million as well as lowered our term loan B interest rate by 50 basis points. Through active treasury management, we are generating savings that can be redeployed to expand our market-leading position.

In summary, our Growth with Purpose strategy is delivering top- and bottom-line performance ahead of expectations. We remain confident that these trends will continue during the second half of fiscal year 2024. Accordingly, we are raising our fiscal 2024 guidance, anticipating revenue to be in the range of $1.52 billion to $1.56 billion and adjusted EPS to be in the range of $4.55 to $4.75.

Given the current challenges that U.S. higher education is facing, we have an incredible opportunity to evolve the way education is delivered. Our operating model uniquely positions us to make an outsized impact as a solution that connects students to high-quality education and prepares them to enter the healthcare workforce as practice-ready clinicians. This is what will continue to differentiate us.

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

Robert Phelan
Thank you, Steve, and hello, everyone. Our second quarter results are a testament to our operational execution and financial performance. Our Growth with Purpose organic growth strategy is resulting in accelerated demand for our programs, enhanced student experiences, and strong underlying profitability from our more efficient operating model.

I'll begin with a review of our financial results and the key drivers for our performance in the second quarter. Later in my remarks, I'll discuss capital deployment and our expectations for the remainder of fiscal 2024.

Starting with the top line, revenue in the second quarter increased by 8.4 percent to $393.2 million, driven by an increase in all three segments, primarily from accelerated enrollment growth at Chamberlain and Walden. Consolidated adjusted EBITDA came in at $92.6 million, up 2.2 percent compared to the prior year, from profit growth at Walden and our medical and

veterinary segment, slightly offset by Chamberlain, resulting in an adjusted EBITDA margin of 23.5 percent or 150 basis points below last year.

Adjusted operating income was $75.6 million, compared with $77.9 million in the prior year, and was impacted by investments in strategic initiatives, higher employee benefit costs tied to our long-term performance, and marketing expenses. Adjusted net income for the quarter was $50.3 million, 6.5 percent lower compared to last year, due to the slight decrease in operating income and an increase in interest expense from the prior communicated additional letter of credit posted in November 2023, partially offset by a favorable adjusted effective tax rate.

Adjusted earnings per share was $1.23, or a 5.1 percent increase compared with the prior year, as we repurchased another 1.4 million shares within the second quarter, resulting in second quarter diluted shares outstanding of $40.8 million, or $5.3 million lower than last year.

Next, I'll discuss financial highlights by segment. Chamberlain reported second-quarter revenue of $153.6 million, an increase of 8.6 percent when compared with the prior year, driven primarily by growth in enrollment. Total student enrollment during the quarter increased 6.6 percent compared with the prior year, a fourth consecutive quarter of both pre-licensure and post-licensure nursing program total enrollment growth. Notably, our pre-licensure BSN online option is expanding rapidly to meet critical nursing shortages and grew total enrollment by over triple digits versus last year.

Adjusted EBITDA decreased by 2.2 percent to $36.9 million. Adjusted EBITDA margin of 24 percent was 270 basis points lower than the prior year, as our underlying operational leverage was more than offset by planned investments in marketing, student support services, and other expenses. We believe our student-facing investments, aimed at expanding our reach and creating a more seamless experience, are enhancing our differentiation and market-leading position. As a result, these investments are intended to continue delivering positive returns through increased future demand, persistence, and academic outcomes.

Turning to Walden, revenue during the quarter was $146.8 million, an increase of 11.3 percent when compared with the prior year, driven primarily by enrollment growth. Total student enrollment accelerated in the second quarter, up 7.9 percent compared to the prior year, from robust enrollment across our various programs and degree levels as well as higher persistence. Growth was led by our Social and Behavioral Health and Nursing programs.

Adjusted EBITDA was up 9.8 percent versus the prior year to $34.6 million. Adjusted EBITDA margin was marginally lower versus the prior year at 23.6 percent, as we increased the level of new student support in the quarter, commensurate with the strong growth in new enrollments. Our transformation and operational efficiencies are resulting in leverage, affording us the opportunity to continue to invest for future growth.

For the medical and veterinary segment, revenue in the second quarter increased 3.8 percent to $92.9 million. There is no change to the total student enrollment for the second quarter compared to the first quarter, as our medical and veterinary schools do not have a new student enrollment cycle within the second quarter.

We're focused on our medical school's remediation plans to improve enrollment over the course of the fiscal year, and our vet school continues to operate near capacity. Adjusted EBITDA increased by 2.3 percent to $26.4 million. Adjusted EBITDA margin was also marginally lower versus the prior year at 28.4 percent, as revenue growth was offset by technology investments and other costs.

Shifting to cash flow and the balance sheet, our business continues to generate robust operating cash flow. Year-to-date, free cash flow was $53 million, an increase compared to the prior year. Strong operational performance and working capital management was partially offset by additional planned capital investments in student-facing technologies and our physical expansion.

As Steve highlighted, our disciplined capital allocation is strengthening our financial position as we redeploy our robust operating cash flow to accretive, high-return investments. Our top priority is to reinvest into our institutions as we aim to achieve optimal capacity and deliver student outcomes. We will thoughtfully reduce long-term financial obligations to strengthen our balance sheet and maximize flexibility, while we also continue a balanced approach to capital allocation.

Since the quarter end, on January 26, we made a prepayment of $50 million on our higher interest rate term loan B, reducing the outstanding balance to $253.3 million. Further, we successfully repriced the term loan B, resulting in a 50 basis points reduction to the interest rate we pay on the term loan.

Now turning to our guidance for fiscal year 2024, as performance accelerates through our Growth with Purpose strategy, we're raising our revenue guidance to be in the range of $1.52 billion to $1.56 billion, representing mid- to high-single-digit year-over-year growth. We're also raising our adjusted earnings per share guidance to be in the range of $4.55 to $4.75, or high single to low double-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 some additional context in relation to our fiscal 2024 outlook. Second quarter revenue came in ahead of our expectations. We now anticipate sustaining the higher level of revenue for the remainder of the fiscal year, with the third quarter seasonably higher than the fourth quarter. As it relates to the phasing of our earnings, we still plan to continue to make incremental growth investments with a slightly higher weighting for the third quarter, as we actively shifted some of our marketing and technology investments out of the second quarter.

Taken together with our sustained higher level of revenue, we still anticipate generating operational leverage during the second half of the year, resulting in a full-year adjusted EBITDA margin profile of approximately 24 percent, consistent with the prior year and what we shared at our June 2023 Investor Day.

Included within our raised fiscal 2024 guidance are the recent capital allocation actions. Specifically, the prepayment and repricing of our term loan B will reduce our interest expense for the remainder of the year but will be offset by additional expenses that we're now anticipating. Finally, we expect our adjusted effective tax rate for the remainder of the year to be slightly higher than our second-quarter rate.

In conclusion, our results demonstrate our ability to deliver short-term performance while investing to achieve our long-term growth targets to create sustainable returns for our owners. I'm excited about the opportunities and the momentum our team is generating.

And with that, I'll 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 that your line is in the question queue. And 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. On the new government investigation of Walden, can you give us any perspective on what's being evaluated specifically beyond that it's focused on the doctoral programs?

Stephen Beard
The Department has requested certain information related to Walden's doctoral programs dating back to 2017. There's not much more specificity than that. We--in light of some of the other developments elsewhere in the sector, we have taken a hard look at our programs, and we feel confident that they are being deployed and communicated to students in ways that are completely consistent with the expectations of the Department. So, we're not terribly concerned about it, but we are obviously cooperating with the Department as much as we possibly can.

Jeff Meuler

Okay. And then, since you noted that you think there were some inaccuracies in the report this morning, I would love just kind of your perspective on gainful employment risk to Walden, so just like what percentage of Walden revenue looks to be in kind of passing, failing, or in the zone categorization? And then, is that based on preliminary data from before or after taking into account some of the 23 GE draft language changes? And then, just anything you can say on mitigating steps you plan to take for any programs that are failing or in the zone.

Stephen Beard
Sure. So, as you'll recall, the final GE rule provided a couple of provisions that were quite helpful to Walden. In specific, they provided for a longer measurement period for mental health and behavioral health programs. And that covers most of what might have been at risk at Walden under prior iterations of the rule. So, as far as we're concerned, almost none of the Walden programs are at risk in connection with gainful employment.

Where we have noted the potential for some theoretical risk is actually at the vet school, not at Walden. But, as you know, we're working hard to get DVM programs the same treatment that MD and medical programs enjoy because we think they're analogous. And if for some reason we're not able to get that, we're prepared to make modifications to the program to ensure compliance.

So, what we've guided investors to expect is that gainful employment doesn't represent a real threat to our programs, and where it represents a theoretical risk, we're prepared to make modifications to be in compliance. So, we're comfortable with gainful employment as a general matter.

Jeff Meuler
Got it. And then, great results at Chamberlain and Walden, but I'll focus on med schools. So, it's been a couple of quarters that you've been implementing remediation steps. Just one, can you be any more specific on like the initial encouraging signs that you're seeing in reaction to those? And then, maybe take it up a notch, and I do think competition has increased for your med school, so maybe talk about more longer term, kind of like the keys to getting back to growth.

Stephen Beard
Sure. So, as you'll recall, we launched a series of remediation efforts to focus on both people and process at the medical schools. We have been very, very encouraged by those remediation programs, and we expect them to deliver sequential improvement in total enrollment at the med schools over the course of the second half of the year, and we expect to get to positive year-over-year total enrollment some time in our fiscal 2025.

We didn't have an enrollment cycle during the quarter, so obviously we didn't have anything to report, but we expect when we're next in front of you, we'll be able to show that incremental sequential improvement in total enrollment. The macro environment for medical education, to

your point, is incrementally more competitive. There are more DO programs that have come online. There are new entrants into the Caribbean medical school space.

But, what's important to remember is that those new entrants to the market have not really kept up with increases in demand, so the gap between supply and demand has remained constant, even as the space has become more competitive. We continue to believe that we have a right to win in medical education, and we believe that between Ross and AUC, we can do that. And we intend to return those institutions to growth, and we intend to take more than our fair share of what we think is a large and growing market opportunity for us.

Jeff Meuler
Okay. Thank you.

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

Jeff Silber
Thanks so much, appreciate you guys moving up the earnings date. Sorry to focus on the short report, but that seems to be the question de jour. So, I don't want to go over every point, but just a couple that I did want to address. One of the reports was about the program participation agreement expiring and the fact that right now, you're operating under a temporary agreement with Walden. Can you talk about that? When will Walden get a more permanent agreement? And in terms of Chamberlain, what are the expectations for renewing that?

Stephen Beard
Yeah, so it's important to remember that provisional program participation agreements are not an indication of any problem at the Department of Education. They are provisional at the discretion of the Department, and they don't reflect any weakness or concern on the Department's part with respect to those programs.

So, all of our programs are in good standing, all of them have unfettered ability to participate in Title IV financial aid, and none of them are at risk of that status changing any time soon. So, we're in good standing, and I think the provisional nature of the agreements has been overblown by the short seller report that was out today.

Jeff Silber
Okay, I appreciate that. If we could move onto Walden, one of the concerns was a potential write down of goodwill. I don't know if you can talk about that, if there's any color you can give in terms--I know Walden's operations are improvement, but is that something we might be seeing, going forward?

Stephen Beard
Yeah, I'll start, and then I'll hand it over to Bob. I think the headline here is that the short seller's report misreads the trajectory of Walden and apparently misunderstands the way impairment testing works on the balance sheet. There is no risk of an impairment at Walden. The institution has had a refreshing and welcome improvement in its trajectory, and the value that we carry on the balance sheet for Walden is completely appropriate for how that institution has performed. But, I'll let Bob get into the accounting specifics.

Robert Phelan
Sure. The other thing I would add to that, Steve, is just that we do test for impairment on an annual basis, and we did that last May for Walden. And we did disclose that in our 10-K, so there were no issues from an impairment perspective. And, as Steve mentioned, if anything, Walden is trending in the right direction from a performance perspective.

Jeff Silber
Okay, great. One more. There was a point about graduation rates and attrition below national averages. I know that national averages may be a bit misleading, but is there anything you can talk about in terms of how those are trending and where that will go, going forward? Thanks.

Stephen Beard
Yeah, I'm going to resist the temptation to go point by point and institution by institution, but suffice it to say that the graduation rates, as articulated in the short seller's report, are, in fact, accurate. For--by and large, depending on the program, our graduation rates are competitive with what you would find at major institutions across the United States.

More importantly, it's important to remember that many of our institutions, particularly in Walden and Chamberlain, serve students who are either part-time students or students who have transferred from other institutions--or for other reasons, because they're working adults, they're not enrolled full time.

And obviously, those numbers are excluded from graduation rates for purposes of that calculation. So, we feel really good about graduation rates across our institutions. We feel really good about persistence rates across our institutions, and we think the report misunderstands that data and in certain instances misrepresents it.

Jeff Silber
Okay, appreciate the color. Thanks so much.

Stephen Beard
Um-hmm.

Operator

Thank you. As a reminder, if you would like to ask a question, please press star, one on your telephone keypad. One moment, please, while we poll for more questions. Thank you. There are no further questions at this time, and I would like to turn the floor back over to Steve Beard for closing comments.

Stephen Beard
Thank you so much. I want to thank everyone for joining the call on relative short notice. We thought it was the right thing to do, but we apologize for any inconvenience associated with that. Secondly, I want to thank all of our colleagues and teammates across Adtalem for their ongoing commitment to our mission and our students, and that's reflected in the outcomes we're able to report this quarter, the momentum we enjoy, and the strength and outlook we have for the future performance of the business.

And finally, with the respect to the short seller's report today, I just want to note the fact that it appears to lay out a looming catastrophe that poses an existential threat to the franchise, and I want everyone to know that nothing could be further from the truth. Across Adtalem, we enjoy market-responsive programs, outstanding student outcomes, and constructive relationships with our creditors and our regulators. The franchise is strong, it's healthy, and it is here to make a meaningful impact in the lives of students and make a difference in U.S. healthcare that's durable and important for all of us.

With that, I want to thank you all for the time this evening, and we look forward to visiting with you again next quarter. Have a good night.

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