Adtalem Global Education
Third Quarter Fiscal Year 2024 Earnings Call
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Presenters
Stephen Beard, President and CEO
Robert Phelan, SVP and CFO
Jonathan Spitzer, VP, Investor Relations

Q &A Participants
Ryan - BMO Capital Markets
Stephen Pollock - Robert W. Baird
Alex Paris - Barrington Research

Operator
Greetings, and welcome to the Adtalem Global Education Third 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. You may begin.

Jonathan Spitzer
Good afternoon, and welcome to our earnings call for the third 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 Phalen, Chief Financial Officer. Before I hand the call over to Steve, I will, as usual, take you through the legal, Safe Harbor, and cautionary declarations.

Certain statements and projects of future results made in this presentation constitute 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 statements after this presentation, whether as a result of new information, future events, changes in assumptions, or otherwise. Please see our latest Form 10-K, Form 10-Q for a discussion of risk factors related to forward-looking statements.

In today's presentation we 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

investors.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 third quarter fiscal 2024 earnings call. We delivered another quarter of strong results, with performance ahead of expectations. During the third quarter, total enrollment grew by 7.8 percent, yielding revenue of $413 million, up 11.8 percent versus the prior year. In the quarter, we also surpassed another performance milestone. We expanded our operating margin at the same time as we increased our year-over-year investment in the business.

This performance generated $1.50 in adjusted earnings per share, up 32.7 percent versus last year. We're very proud of these results. And more importantly, we see them as another mile marker on our journey to establish Adtalem as a national leader in post-secondary higher education and a systemically important partner to U.S. healthcare.

We take this journey at a time when the value proposition of higher education is under increasing scrutiny. For some, cost has become a barrier to entry. For many, there is growing concern about whether a college degree is a reliable path to a good job upon graduation, leading them to question the return on investment.

Finally, the increasing availability of alternative forms of education, including online courses, certificate programs, and vocational programs, many of which are offering greater flexibility and sometimes more attractive pricing, have also contributed to a reevaluation of the relevance and effectiveness of traditional higher ed.

At the same time, the workforce shortages in U.S. healthcare are a significant and pressing issue. The demand for healthcare services continues to grow due to factors such as an aging population, increased access to healthcare coverage, and advancements in medical technology. However, the supply of healthcare professionals, including doctors, nurses, and other essential staff, has not kept pace with its increasing demand, threatening the sustainability of the existing patient care model.

At Adtalem, we carefully monitor both of these dynamics, but as a backdrop, they serve only to strengthen our commitment to our mission, which is to expand access to high-quality and market-responsive academic programs for a community of learners long overlooked by traditional higher education and support those learners through an innovative, tech-enabled, and success-focused student experience through graduation and into their careers and, just as importantly, to do it with a deliberate and sorely needed emphasis on those roles and professions where our nation experiences healthcare workforce shortages most acutely.

This is our third consecutive quarter of total enrollment growth and our fifth consecutive quarter of revenue growth, and it's a testament to the success of our Growth with purpose strategy, which seeks to accelerate the organic growth of our brands and businesses through transformational improvements and operational excellence.

Our strategy calls for best-in-class execution across the five value-creating levers of our operating model, marketing, enrollment, persistence, pricing, and programs. And suffice it to say, we're encouraged by the progress today. Moreover, we're confident that these results will continue to the fourth quarter, and as a result, we're raising our fiscal year 2024 revenue guidance to be $1.56 billion to $1.58 billion and our fiscal year 2024 adjusted EPS guidance to be $4.80 to $5.00.

Now to results by segment. Chamberlain and Walden were the primary drivers of our strong performance in the third quarter, and we continue to see encouraging total enrollment trends in the medical and veterinary segment. Chamberlain is the largest school of nursing in the country, and its leadership position in nursing is expanding. During the quarter, we surpassed our highest ever total enrollment in nearly 38,000 students.

This growth in enrollment was broad-based and distributed across all of our programs and degree levels. Chamberlain continues to be a leading choice for nursing students with its culture of care and its social determinants of learning framework that drives academic success across learners from all backgrounds.

Chamberlain is a recognized innovator in nursing education, and it expanded its practice-ready specialty-focused offering through a partnership with Emergency Nurse Association. Across the practice-ready, specialty-focused tracks, we now have over 1,700 students, enabling them to gain familiarity with their chosen specialty area and be workforce ready on day one.

BSN Online continues to offer flexibility to 1,700 students across 33 states, and we see a robust pipeline for growth in that program. By further expanding the online delivery capability of our pre-licensure programs, we're able to bring nursing education to thousands of students who cannot otherwise pursue it and, through our expansive clinical affiliations across the country, enable them to complete the practicum component of their education close to home.

Turning to Walden, our total enrollment grew by 8.4 percent as Walden experienced some of the strongest new enrollment growth in its history. Our continued investments in the Walden brand have grown market awareness with demand up double digits year-over-year for the fourth straight quarter. New student growth, when paired with the robust persistence gains we achieved in prior periods, has led to increased enrollment across programs and degree levels, with particularly strong growth in advanced nursing degrees as well as social and behavioral sciences degrees.

Walden continues to offer flexibility to working adults who value part-time, self-paced, and competency-based programs. And our Believe and Achieve Scholarship sets Walden apart and rewards students for persisting through programs, in some instances reducing tuition costs by as much as 25 percent as they matriculate through the graduation. We now have over 23,000 students participating in Believe and Achieve.

In our Medical and Veterinary segment, we welcomed Scott Liles back to Adtalem to serve as President. Scott was most recently CEO of the Association of Certified Anti-Money Laundering Specialists, known as ACAMS, which he successfully to growth to its divestiture. Remediation efforts in Med/Vet continue to deliver encouraging results as total enrollment trends improve sequentially, down just 4.5 percent year-over-year in the quarter. We continue to strengthen our enrollment processes with early indications of success starting to show on the top of the funnel.

Ross University School of Veterinary Medicine continues to operate at near capacity, and we also continue to invest in innovations that drive a differentiated and superior student experience. One example is our clinical return home program at Ross Med, which leverages the extensive network of Adtalem clinical partnerships to provide students early clarity on where they will complete their clinical rotations and enable them to do so at hospitals close to their homes.

For the second straight year, AUC and RUSM achieved a combined 98 percent first-time residency match rate, placing more than 815 students and graduates into over 350 unique healthcare facilities, spanning 44 states and territories. Of these students, over 500 will enter primary care residencies poised to serve the more than 83 million Americans living in areas lacking adequate access to primary care.

Our medical students are a key component in addressing the nation's gaps in health equity. Of the 815 students and graduates who participated in Match Day, 189 identify as black, African American, or Hispanic, helping diversify the pipeline of physicians in the U.S. healthcare system. As of 2021, black Americans made up 13 percent of the population but only 6 percent of physicians. And Hispanics represent 19 percent of the population but only 7 percent of physicians.

The quality, reach, and impact of our medical schools is undeniable with its diverse and specific-minded community of students and graduates making tangible contributions across some of the most prominent health systems in the U.S.

To close, our Growth with Purpose strategy is delivering top and bottom line performance ahead of our expectations, and we expect that performance to continue through next quarter. As the country's largest healthcare educator, we're mindful of our critical role in addressing growing healthcare workforce shortages, and we're delighted to serve a student population poised to narrow health equity disparities across the country.

Over the last three years, our five institutions have graduated over 81,000 students, nearly 55,000 in nursing alone, with another 2,300 in medicine and 3,300 in social work. They join an existing network of over 300,000 Adtalem alumnae working to bring positive change to the communities in which they live and work. What drives all of us at Adtalem is the knowledge that as our growth gains momentum, these positive outcomes multiply.

And with that, I'll turn the call over to Bob for further discussion on our financial results.

Robert Phelan
Thank you, Steve, and hello, everyone. Our third quarter results reflect robust operating and financial performance. Growth with Purpose, our organic growth strategy, accelerated total enrollment growth and delivered enhanced profitability through a more efficient operating model, while we optimally balanced the continued increase in the level of investments for future growth.

I'll begin with a review of our financial results and key drivers for our performance in the third 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 third quarter increased by 11.8 percent to $412.7 million, driven by an increase in all three segments and primarily from accelerated enrollment growth at Chamberlain and Walden. Consolidated adjusted EBITDA came in at $107.1 million, up 24.6 percent compared to the prior year from profit growth in all three segments, led by Walden, resulting in an adjusted EBITDA margin of 25.9 percent, a 260 basis points increase from last year.

Adjusted operating income was $89.8 million, up 23 percent compared to the prior year as revenue growth and efficiencies generated operational leverage, which was partially offset by investments in strategic initiatives, higher employee benefit costs tied to our performance, and other costs. Adjusted net income for the quarter was $59.4 million, up 15.1 percent compared to last year, attributed to adjusted operating income growth, partially offset by higher adjusted effective tax rate and higher year-over-year interest expense.

As a reminder, the third quarter only had a partial quarter benefit from the $50 million term loan repayment, the 50 basis point savings from our term loan repricing, and the interest savings from the $76.2 million reduction in outstanding Department of Education letters of credit. Adjusted earnings per share was $1.50, or a 32.7 percent increase compared with the prior year, as we repurchased 1.8 million shares within the third quarter, resulting in a third quarter diluted shares outstanding of $39.6 million, or $6.2 million lower than last year.

Next, I'll discuss financial highlights by segment. Chamberlain reported third quarter revenue of $170.3 million, an increase of 13.8 percent when compared with the prior year, driven

primarily by growth in enrollments. Total student enrollment for the quarter increased 9 percent compared with the prior year, a fifth 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 increased by 12.3 percent to $50.5 million. Adjusted EBITDA margin, 29.6 percent, was 40 basis points lower than the prior year as our underlying operational leverage was more than offset by investments in marketing, student support services, and other expenses.

We continue to believe that our student-facing investments, aimed at expanding our reach and creating more seamless experience, are enhancing our differentiation and market-leading position. Our third quarter total enrollment grew from new demand and increased persistence, which showcased the early return on investment. These investments are intended to continue delivering positive returns through increased future demand, persistence, and economic outcomes.

Turning to Walden, revenue during the quarter was $150.6 million, an increase of 13.3 percent when compared with the prior year, driven primarily by enrollment growth. Total student enrollment accelerated in the quarter, up 8.4 percent compared to the prior year, from robust enrollment across degree levels, notably in undergraduate and continued high persistence. Growth was led by our social and behavioral health and nursing programs.

Adjusted EBITDA increased by 28.9 percent to $35.9 million. Adjusted EBITDA margin expanded by 290 basis points versus the prior year, to 23.8 percent, as our transformation and operational efficiencies leverage was partially offset by an increased level of investments in new student support in the quarter, commensurate with the strong growth in the enrollments. Our strong operational and financial performance affords us the ability to continue to invest for future growth at Walden.

For the Medical and Veterinary segment, revenue in the third quarter increased 6.1 percent to $91.7 million. Total student enrollment decreased 4.5 percent compared with the prior year, primarily from our medical schools as our veterinary school continues to operate near capacity. We have seen early returns and indications to return the segment to total enrollment growth as we execute on our remediation plans.

Our year-over-year enrollment trends sequentially improved by 300 basis points from the last reported Med/Vet student enrollment cycle. Adjusted EBITDA increased by 30.3 percent to $27 million. Adjusted EBITDA margin expanded by 540 basis points versus the prior year to 29.4 percent from revenue growth and our renewed operational focus.

Shifting to cash flow and the balance sheet, we continue to bolster our financial strength through robust operating cash generation. Fiscal year-to-date nine months free cash flow was

$195 million, a $64 million increase versus last year, inclusive of a $33 million year-over-year increase in capital investments. Strong operational performance and working capital improvements were partially offset by these additional planned capital investments in student-facing technologies and our physical expansion.

Our top priority remains 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.

Also of note, our outstanding letters of credit were reduced by $76.1 million during the third quarter as one of our letters of credit expired on January 31 and was not required to be renewed. As of March 31, 2024, we now have $241.9 million of letters of credit outstanding.

Turning to our guidance for fiscal year 2024, as performance accelerates throughout Growth with Purpose strategy, we are raising our revenue guidance to be in the range of $1.56 billion to $1.58 billion, representing high single-digit year-over-year growth. We are also raising our adjusted earnings per share guidance to be in the range of $4.80 to $5.00 or mid to high teens 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. Third quarter revenue came in ahead of our expectations. We continue to anticipate sustaining the higher level of revenue year-over-year growth for the fourth quarter, with a reminder that our third quarter is seasonably higher than the fourth quarter.

We still plan to continue to make incremental growth investments in marketing and technology in the fourth quarter. Taken together with our sustained level of revenue, we still anticipate generating operational leverage in the fourth quarter and remain on track to achieve our stated goal of full-year adjusted EBITDA margin profile to be consistent with last year at approximately 24 percent.

Included within our raised fiscal 2024 guidance are the recent capital allocation actions, specifically our lower term loan re-balance and repricing as well as the lowered associated interest expense from the reduction of our outstanding letters of credit. Finally, we expect our fourth quarter adjusted effective tax rate to be a more normalized rate of slightly over 20 percent.

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 momentum our team is generating as we stay focused on finishing the year strong and laying the foundation for fiscal year 2025.

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

Operator
Thank you. And ladies and gentlemen, we will now conduct 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. 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 pull for questions. And our first question comes from Jeff Silber With BMO Capital Markets. Please state your question.

Ryan
Hey, thanks a lot. This is Ryan on for Jeff. Just with all the headlines surrounding all the FAFSA delays, I was curious how you're thinking about that in light of your fall enrollment season. Thanks.

Stephen Beard
Thanks for the question. As you might imagine, we're monitoring those developments closely, both at the national level and specific to our institutions. As we sit here today, we have not uncovered any potential risks to our upcoming enrollment cycles, but again, our teams are staying close to our students, and we're ready to mitigate any challenges, should they arise. But at the moment, no headwinds coming out of that dynamic.

Ryan
Got it. And I was just curious, looking at your FY 2025 guidance, can you give a refresher if you still feel good about the 4 percent to 6 percent for next year, or you're feeling incrementally better since you provided that guidance last June?

Stephen Beard
Yeah, I would say right now that the guidance we put out in Investor Day for fiscal 2025 is a good proxy at this point. We will be coming back as we finish up the quarter, the fourth quarter, that is, and get into fiscal 2025, and we'll have more specific guidance at that point. But, I do think it's a good proxy at this point.

Ryan
Got it. And then, the last one for me, it just seems like every intake period the med schools seem to be getting a little bit less worse--was just curious if you have any estimation of when we start to see some growth there, either from a new enrollment perspective or the total enrollment.

Stephen Beard

Well, we remain encouraged that the remediation efforts we put in place a couple quarters ago are working as we anticipated. So, we've guided that we expect total enrollment at the segment to improve sequentially over time with the opportunity to go positive total enrollment year-over-year at some point early in our fiscal 2025. That's still our expectation, and that's still what we're working towards.

Ryan
Great. Thanks a lot.

Stephen Beard
Thank you.

Operator
Our next question comes from Stephen Pollock with Robert W. Baird. Please state your question.

Stephen Pollock
Yeah, thank you. Stephen Pollock for Jeff Meuler. Obviously, the operating leverage in the business is coming through but any additional color you can provide on maybe how you are thinking about the reinvestment back in the business versus letting operational leverage flow to the bottom line. Sort of any additional color on sort of how you're thinking about that balance.

Stephen Beard
Yeah, obviously, we believe, given current course and speed, the initiatives that we have in place related to our Growth with Purpose strategy, that the most accretive use of cash is investing and driving the organic growth of the business. Beyond that, obviously our philosophy around capital allocation focuses on managing down debt, returning capital to shareholders through share repurchase.

But obviously, the highest priority is to ensure that the momentum that we enjoy now is momentum that we continue to enjoy over the near term and hopefully over the long term. So, we started this fiscal year telling that we were going keep margins flat year-over-year in relation to some of the investments we were making with Growth with Purpose. But, if you go back to the guide we did at Investor Day over a multi-year cycle, we do expect to continue to expand margins, going forward. But Bob can jump in with any additional specificity.

Robert Phelan
No, I think that's great, Steve. The only thing I would say is that we had talked about before that the back half of this year, we would see the margin expansion. So, that's what you're seeing come through in the third quarter. We expect that in the fourth quarter, getting back to Steve's point, of roughly an EBITDA level of 24 percent for the full year. And then, we do anticipate, as we had said in Investor Day, expanding margins as we get into fiscal 2025 and 2026.

Stephen Pollock
Great. And obviously, the enrollment trends are better in Chamberlain and Walden, but maybe if you could kind of break down the magnitude of the pieces, I guess, between sort of the brand building and the marketing efforts of the Growth with Purpose as well as kind of a more stable nursing end market, easier comps. I guess, ultimately, how do you think about the stability of the growth rate--sustainability of the growth rate, going forward?

Stephen Beard
Yeah. So, as we have discussed in prior cycles, where it starts with us is really taking advantage of the opportunities to improve persistence across the portfolio. And at Walden and at Chamberlain, we're enjoying some of the best persistence rates we've had in years. When you layer on top of that new enrollment growth, you get the kind of total enrollment trend than we've seen over the last few quarters and that we expect will continue for the balance of this year and into next year.

On a year-over-year basis, you get some more difficult comps as we get into fiscal 2025, but on an absolute sequential basis, we believe there's still opportunity to continue to grow enrollments at both Chamberlain and Walden and in the Med/Vet segment, particularly at the medical schools.

So, we have still got, we think, attractive capacity to do that within our existing framework. And when we think about some of our online programs like BSN Online at Chamberlain and the portfolio of programs we have at Walden, we've really got lots of headroom to continue to take full advantage of everything we've done to raise awareness around our brands and programs and attract more students into them.

Stephen Pollock
Thank you very much.

Stephen Beard
Um-hmm.

Operator
Our next question comes from Alex Paris with Barrington Research. Please state your question.

Alex Paris
Hi, guys. Thanks for taking my questions, and congratulations on the outperformance in the guidance race.

Stephen Beard
Thank you.

Alex Paris
Just diving into the segments a little, a couple of follow-up questions. At Chamberlain, impressive acceleration in year-over-year growth. You kind of called out BSN Online, pre-licensure BSN programs, growth in several graduate programs, I'm assuming. And then, how is that stubborn RN to BSN program going?

Stephen Beard
Well, it's going quite well, actually. I mean, we--the thing to remember our RN to BSN is that it is a market offering that is flat to down, depending on how you measure it. But, we continue to take share in RN to BSN because of the strong reputation Chamberlain enjoys, and also Walden in RN to BSN. So, relative to the overall market dynamics for that offering, we continue to do quite well across both institutions.

Alex Paris
Good to hear. I realize that was sort of the last to come back, I would think, given the COVID demands on working nurses, and so on.

Stephen Beard
That's right. Post-licensure nursing was the last component to come back post-COVID.

Alex Paris
And you're up in those RN to BSN in both institutions? You said you're taking share, but are you taking share by declining less or increasing?

Stephen Beard
We're up at both institutions.

Alex Paris
Great. And then, a quick one or two on Med/Vet, starting with the medical schools. Again, sequential improvement, the rate of decline is diminishing. You are expecting increased enrollment in fiscal 2025 within the medical schools. How is that going to happen? What are your focus areas? I think you, in the past, have talked about increasing international students, increasing your affiliation with HSBCs and HSIs. Just hoping to get a little bit more color on initiatives within medical schools.

Stephen Beard
Yeah. So, going back a couple of quarters, Alex, the decline in enrollments at the medical schools, we've been very clear, was not the reflection of a specific market dynamic applicable to medical education. It really was an execution challenge on our end, which is why the remediation efforts we've discussed are really about people in process on our end, how we better execute against the market opportunity we have, both at the top of the funnel, but most importantly, at the bottom of the funnel when it's time to actually convert those students into enrollees.

That's what the remediation efforts are focused on. We believe that if we successfully implement those initiatives and maintain them over time, the market opportunity is still sufficiently attractive for us to grow enrollments over time at both medical schools. Even though medical school and medical education is incrementally more competitive because of D.O. schools and things happening in the lower 48, the additional competition in that space has not kept up with demand, and there are still many, many more applicants for medical schools than there are seats.

And that creates an incredibly attractive opportunity for our schools which have been doing this for over 40 years, have fantastic brands and reputations with students, and offer a differentiated experience on the island. So, we still think we can win in medical education. It's just down to us to execute, and that's just to flow through our results of operations over the last few quarters.

Alex Paris
Great. Thank you. And then, last question on the veterinary school continuing to operate at or near capacity, in terms of the Department of Education and gainful employment regulation, whether that takes effect on time or not, given lawsuits and so on, that was an area that seemed to be neglected when they wrote the rule.

They gave some relief to medical schools and so on, but they didn't specifically mention vet schools. And I know you were working on that. Anything to share there? Any update on your efforts with the Department of Education? And what are your options if they don't give that relief, which they should?

Stephen Beard
Well, what I can say is that we remain engaged with the department about extending a longer measurement period to DVM programs, not unlike what's available for medical programs and other mental health and behavioral sciences programs. It seems to be a very analogous, logical move to make. And we've gotten what we believe is a constructive reception from the department in those discussions. So, we are still working that path because we think it's a viable path, and it's one that makes sense. And other DVM programs, I think, agree with us there.

Beyond that, if for some reason we were not able to get that exception, and if for some reason, the rule as currently drafted survived all of the various challenges it's facing from a litigation perspective, we have thought about a number of different strategies we could pursue to ensure that the country's largest DVM program, and arguable because of its scale, the most important DVM program in the country continues to operate in a way that serves the increasing demand for companion pet veterinarians in the United States. So, I won't get into specifics based on a hypothetical, but we feel very confident about the ongoing viability of that program, and we're pursuing multiple paths to ensure that happens.

Alex Paris
That's great. I appreciate that extra color, and I'm rooting for you guys. I'll get back into the queue.

Stephen Beard
Thank you.

Operator
Thank you. There are no further questions at this time. I'll hand the floor back to Steve Beard for closing comments.

Stephen Beard
Yeah, as I mentioned in our prepared remarks, we had a fantastic Match Day. And that's exactly the kind of strong academic outcome that has a second order effect that benefits all of us who love U.S. healthcare, that we're proud to be a part of Adtalem. So, I just want to congratulate all of our colleagues across our two medical schools, and more importantly, all of our fantastic students who are ready to go off to the residencies of their choice and begin the next chapter of their journey to become practicing physicians.

Thanks for the time this afternoon, and we look forward to catching up next quarter.

Operator
Thank you. This concludes today's teleconference. All partners may disconnect. Have a good day.