Adtalem Global Education, Inc.
Fourth Quarter and Fiscal Year 2024 Earnings Call
August 6, 2024

Presenters
Stephen Beard, President, Finance and CEO
Robert Phelan, Vice President and CFO
Jonathan Spitzer, VP of Investor Relations

Q&A Participants
Steven Pawlak - Baird
Ryan - BMO Capital Market

Operator
Hello, and welcome to the Adtalem Global Education, Inc. Fourth Quarter and Fiscal Year 2024 Earnings Conference Call and Webcast. At this time, all participants are in a listen-only mode. If anyone should require operator assistance, please press star, zero on your telephone keypad. A question-and-answer session will follow the formal presentation. You may be placed into question queue at any time by pressing star, one on your telephone keypad. As a reminder, this conference is being recorded.

It's now my pleasure to turn the conference over to Jonathan Spitzer, Vice President, Investor Relations. Please go ahead, sir.

Jonathan Spitzer
Good afternoon, and welcome to our earnings call for the fourth quarter 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 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 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, change in assumptions, or otherwise. Please see our latest Form 10-K, Form 10-Q, for a discussion of risk factors that relate to forward-looking statements.

In today's presentation, we use certain non-GAAP financial measures. We refer you to the appendix of 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 welcome to Adtalem's fourth quarter and fiscal year 2024 earnings call. This year, we expanded our reach and amplified our impact through successful execution against our Growth with Purpose strategy. We've accelerated our strategic initiatives, achieved significant operational milestones, and exceeded the 2024 financial targets we set during our June 2023 Investor Day. We're encouraged by our results, our growth trajectory, and by the substantial impact we're making as a national leader in post-secondary higher education and the leading provider of professional talent to U.S. healthcare.

As we reflect on fiscal 2024, I'd like to note the following specific highlights. We further integrated our five institutions, creating a more efficient operating model with durable synergies, attractive profitability, and real operating leverage. Our data-driven marketing strategies have enhanced brand awareness, producing double-digit growth and enterprise increase for the fiscal year. We utilized economies of scale to boost student-facing investments, while maintaining an attractive, adjusted EBITDA operating margin profile.

Total enrollment returned to growth in the first quarter and consistently improved throughout the year, returning to pre-pandemic levels and ending the year with a 10% year-over-year increase for the fourth quarter. Our revenue for the year was $1.58 billion, up 9.2% year-over-year. We delivered an adjusted EBITDA margin of approximately 24%, resulting in adjusted earnings per share of $5.01, an increase of 19% year-over-year. Finally, we strengthened our financial position, generating $239 million in free cash flow and returning $261 million in capital to our shareholders.

From here, I'd like to turn to our segments. Chamberlain University, the nation's leading nursing school, continues to enhance its national presence through a diverse range of nursing programs and learning modalities, achieving a notable 10.4% increase in total enrollment this quarter. We're actively expanding our online Bachelor of Science in Nursing option, while making strategic investments to enhance capacity and program offerings at our physical locations.

In July, we proudly opened our new relocated Phoenix campus, capable of accommodating nearly 1,100 students. This campus features a modernized learning environment, including an expansive simulation lab. In addition, the campus is also designed to house a Physician Assistant program that would represent our second location for this in-demand field. Today, we're excited to announce our plan to enter the Kansas City market with our 24th Chamberlain location, which will serve approximately 550 students.

Our extensive campus footprint, combined with flexible online and hybrid pathways, positions Chamberlain as a leader in delivering education to students in a way that aligns with their

individual learning preferences. We're further expanding our practice-ready specialty-focused program through a new partnership with the American Association of Critical Care Nurses. Beginning in January of 2025, this collaboration will provide an in-depth introduction to caring for acutely and critically ill patients and their families.

The AACN partnership marks our fifth marquis specialization, addressing critical workforce needs identified by industry leaders. Since the launch of practice-ready, specialty-focused programs in January of 2022, we've enrolled over 2,000 BSN students with more than 650 successfully completing specialty clinical tracks.

Now turning to Walden University. Our go-to-market strategy, commitment to operational excellence, and focus on flexible distance learning for working adults have resulted in another quarter of impressive enrollment, reflecting an 11.3% increase year-over-year. Our ongoing operational improvements and the implementation of industry-leading technology are not only attracting new students but also driving high persistence rates.

By prioritizing a seamless student experience through tech-enabled enhancements in areas such as enrollment, virtual classrooms, student support platforms, and advising methods, we remain confident in Walden's position as a leader in digital learning for working professionals. The latest addition to our tech-enabled enhancements is the launch of our newly redesigned Walden website, which offers students a more streamlined navigation experience.

Walden remains a leader in addressing nursing labor shortages, ranking as the second largest producer of Master of Science in Nursing graduates in the country, just behind its sister university, Chamberlain. Additionally, we're making significant strides in tackling the mental health crisis through our comprehensive counseling, psychology, social work, and human services programs. Furthermore, our Tempo program, which is competency-based, has experienced double-digit enrollment growth each quarter this year.

Our Believe and Achieve scholarship, designed to provide financial clarity and reward persistence, has had over 25,000 participants since its launch. These initiatives, along with our continued technological advancements, contribute to our confidence in Walden's promising growth trajectory. With respect to the medical and veterinary segment, we're making significant progress at our medical schools as we work to return to year-over-year growth.

Our remediation plans are starting to yield positive results, as evidenced by the improved enrollment trends for the May student intake. Our newly established leadership team remains dedicated to implementing initiatives and identifying opportunities to enhance our institutions and improve the enrollment journey for prospective students. We continue to see strong interest in Ross Med's clinical return home program.

Additionally, students enrolled in the first cohort of Capstone, a Ross Med elective, have achieved promising academic outcomes on USMLE Step 1, prompting us to incorporate its

insights into our basic sciences curriculum. Ross Vet is operating near capacity. In May, we celebrated our annual commencement, graduating nearly 400 new doctors of veterinary medicine. In the most recently reported academic year, 2022, Ross Vet accounted for approximately 9% of all DVM graduates in the United States.

Looking ahead, we anticipate that total enrollment trends in our medical and veterinary segment will continue to improve in fiscal year 2025. We expect that our Growth with Purpose strategy, with its focus on operational excellence, will continue to drive top- and bottom-line results. We expect fiscal year 2025 to be another record year, with projected revenue of $1.66 billion to $1.7 billion and adjusted earnings per share of $5.60 to $5.85.

Before I hand the call over to Bob for a detailed financial overview, I'd like to thank our nearly 10,000 colleagues who come to work every day with the goal of making Adtalem a force for good. I continue to be awestruck by your dedication and unwavering commitment to serving our students, driving remarkable outcomes, and making a positive impact on society. And with that, I'll turn the call over to Bob.

Robert Phelan
Thank you, Steve, and hello, everyone. Our fourth quarter and full year results highlight our sustainable momentum and trajectory. Returns against our Growth with Purpose strategic initiatives are amplifying our total enrollment growth and delivering enhanced leverage through our disciplined operational performance. In turn, we achieved strong top- and bottom-line growth for the quarter and the year as well as yielded robust cash generation. We not only achieved financial and operational results ahead of our initial expectations set heading into the year, but we also exceeded our most recent updated guidance range.

I'll begin with a review of our financial results and key drivers for our performance in the fourth quarter and the full year. Later in my remarks, I will discuss our expectations and assumptions for fiscal year 2025. Starting with the top line, revenue in the fourth quarter increased by 12.4% to $409.9 million, driven by growth in all three segments, in particular through accelerated enrollment growth at Chamberlain and Walden. For the full year, revenue was $1.58 billion, up 9.2%.

Our enrollment growth trend sequentially improved every quarter throughout the year across all three segments as Growth with Purpose initiatives and our marketing investments generated their intended returns. During the quarter, consolidated adjusted EBITDA came in at $97.4 million, up 16.9% compared to the prior year from growth in all three segments. This growth was led by Chamberlain & Walden and resulted in an adjusted EBITDA margin of 23.8%, a 100 basis point increase from last year.

Adjusted operating income was $80.1 million, up 14.6% compared to the prior year, as revenue growth and efficiencies generated operational leverage. Looking at the full year, adjusted EBITDA was $377.5 million, an increase of 9.9% compared with the prior year. We continued to

achieve a high adjusted EBITDA margin of 23.8%, meeting our fiscal year goal as we optimally balanced our long-term growth investments with our more efficient, integrated, and scaled operational foundation across our three segments and home office.

Fiscal year 2024 adjusted operating income was $308.8 million, up 7.4% compared to the prior year. Adjusted net income for the quarter was $52.8 million, with adjusted earnings per share of $1.37. For the full year, adjusted net income increased by 5% to $201.8 million, resulting in an adjusted earnings per share of $5.01, a 19% increase compared with the prior year, as adjusted operating income growth and lower diluted shares outstanding was partially offset by higher net interest expense and a higher effective tax rate.

Diluted shares outstanding were approximately $5.3 million lower this year at $40.3 million, as we returned a total of $261 million of capital to shareholders through open market share repurchases at an average cost basis of $47.96 per share for the year, actions that we believe have increased long-term intrinsic value for the benefit of our shareholders.

Next, I will discuss fourth-quarter financial highlights by segment. Chamberlain reported fourth-quarter revenue of $167 million, an increase of 15.6% when compared with the prior year, driven primarily by growth in enrollments. Total student enrollment during the quarter increased 10.4% compared to the prior year, a sixth consecutive quarter of both pre-licensure and post-licensure nursing program growth.

We continue to rapidly expand our pre-licensure BSN online option now offered in 34 states, growing over triple digits year-over-year, expanding access to nursing education for students who previously had limited or no traditional local options available. Adjusted EBITDA increased by 15.1% to $47.3 million for the fourth quarter.

Adjusted EBITDA margin of 28.3% was 10 basis points lower than the prior year as our underlying operational leverage was offset by investments in marketing, student support services to enhance academic outcomes, higher employee benefit costs tied to our performance, and higher provision for bad debt. Our student-facing investments are creating a more seamless student experience, enhancing our differentiation and market-leading position. Taken together with our marketing investments, we believe that we are expanding our top nursing education position.

Turning to Walden, fourth quarter revenue of $156.3 million, an increase of 13.3% versus the prior year, was driven by strong growth in enrollments. Total student enrollment accelerated in the quarter, up 11.3% compared to the prior year, from robust enrollment across degree levels and continued high persistence rates. The strong enrollment growth was led by social and behavioral health and nursing programs, with non-healthcare programs also up in the quarter.

Adjusted EBITDA increased by 16.6% to $41.1 million. Adjusted EBITDA margin expanded by 70 basis points versus the prior year to 26.3% as our transformation and efficiencies generate

operational leverage, which is being balanced with an increased level of investments and new student support commensurate with the strong growth in new enrollments. Our operational focus continues to afford us the ability to invest for future growth at Walden.

For the medical and veterinary segment, revenue in the fourth quarter increased 5.4% to $86.6 million. Total student enrollment decreased 2.9% compared with the prior year as our plans remain on track at the medical schools, and Ross Vet continues to operate near capacity. Adjusted EBITDA increased by 12.3% to $16.5 million. Adjusted EBITDA margin expanded by 120 basis points versus the prior year to 19% from revenue growth and our operational focus.

Shifting to cash flow and the balance sheet, we continue to enhance our financial strength through robust cash generation. Fiscal year 2024 free cash flow was $239 million, a $70 million increase versus last year, inclusive of year-over-year increases in investments. Strong performance and working capital improvements drove the increase in free cash flow, while we continue to increase our planned investments in student-facing technologies and our physical expansion. Our balance sheet remains healthy, ending the year with $219 million in cash and a low adjusted EBITDA net leverage of 1.2 times.

Our top priority remains to reinvest into our institutions, as we aim to achieve optimal capacity and deliver positive student outcomes. We will thoughtfully strengthen our balance sheet, while we also continue a balanced approach to capital allocation. We exited fiscal year 2024 strong as our Growth with Purpose initiatives generate tangible returns. We are creating sustainable momentum off a higher total enrollment base heading into fiscal year 2025. As we continue to execute and accelerate performance, we are initiating fiscal year 2025 guidance, which exceeds our June 2023 Investor Day targets.

Revenue in the range of $1.66 billion to $1.7 billion, approximately 5% to 7.5% growth year-over-year, with adjusted earnings per share in the range of $5.60 to $5.85, approximately 12% to 17% growth year-over-year. We plan to continue to make incremental growth investments, primarily into student-facing technology and marketing, with revenue growth in fiscal year 2025 growing faster than the level of year-over-year investments, resulting in an approximate 100 basis points adjusted EBITDA margin expansion from enhanced operational leverage.

To capture the current external market opportunities and to expand our reach through inclusive education access, we are investing more into marketing during the first quarter. We anticipate a slightly higher level of total revenue growth during the first half of the year compared to the second half, though we expect fiscal year 2025 total revenue growth to be more balanced compared to the accelerating revenue growth we had seen throughout fiscal year 2024. Included within our guidance are the capital allocation actions from fiscal year 2024 as well as our continued strong cash flow generation. Finally, we anticipate a normalized adjusted effective tax rate of approximately 22%.

In conclusion, we are well positioned to continue to make a positive outsized impact on U.S. healthcare. Our Growth with Purpose strategy is amplifying our trajectory, growing enrollments through expanding access. As we continue to deliver outstanding student outcomes, the number of healthcare-focused graduates coming from an Adtalem institution will continue to grow, poised to have positive societal impacts for decades to come.

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 be placed in the question queue, please press star, one on your telephone keypad. You may press star, two if you'd like to remove your question from the queue. Once again, that's star, one to be placed in the question queue.

Our first question today is coming from Jeff Silber from BMO Capital Markets. Your line is now live.

Ryan
Hey, thank you so much. This is Ryan on for Jeff. Just curious as to how much the admissions growth was driven by marketing spend. And then, will you still be able to get leverage in FY '25 if you slow down that spend and achieve margin expansion? Thank you.

Stephen Beard
Well, I think the overall total enrollment gains were driven by a combination of new enrollment and persistence and, as a result, the persistence portion of that wouldn't be impacted by marketing. We think we've got real momentum on the heels of the brand campaigns we did last year to sustain that kind of enrollment growth without material investments in marketing beyond the ordinary course refreshing of our campaigns.

Ryan
Got it. And then just for my follow-up, can you give any comments on the pricing environment? It looks like you've been successful in bringing up the tuition rates there and was just curious how we should think about that and the competitive environment in 2025. Thank you.

Stephen Beard
Yeah, price optimization is one of the core disciplines we've begun to adhere to as part of our Growth with Purpose strategy. And by optimization, that can mean taking price where we have pricing power. It also means potentially taking price down where we think we're not priced competitively. And so we, along with our teams in each of the three segments, review that on a regular basis and make adjustments accordingly to ensure that we're competitive in the marketplace and can take more than our fair share from the large pool of aspiring students for our programs.

Ryan
Got it. And just to confirm, we should still be using 100 basis points of adjusted EBITDA margin expansion this year?

Stephen Beard
That's correct.

Ryan
Okay. Thank you very much.

Stephen Beard
Of course.

Operator
Thank you. The next question is coming from Steven Pawlak from Baird. Your line is now live.

Steven Pawlak
Yes, thank you. How would you characterize the current demand environment relative to a more normalized view? And I guess the reason I'm asking is I think there was still some catch-up as hospitals and clinical capacities were normalized post-COVID. So, just how would you characterize the environment relative to a more normal environment--.

Stephen Beard
--I just want to make sure--.

Steven Pawlak
--On the demand side?

Stephen Beard
--Your question, you're talking about the demand environment for clinicians or the demand environment for students in these programs?

Steven Pawlak
For students.

Stephen Beard
So, our view is that the demand environment for students normalized last year. There was a one-time reset in the wake of COVID, which had, I think, a real impact on undergraduate enrollments across all of higher ed. But, I think we've been operating in a normalized demand environment for at least the last year. And what we've been really gratified by is our ability to take share in that normalized demand environment. That's something we expect to continue to do into fiscal 2025.

Steven Pawlak
Okay. And then, within the guidance range, any color you can provide on sort of what puts and takes would put you at the higher or lower end of that range?

Robert Phelan
Sure. I--what I would tell you is that right now, we're basing this on what we see the visibility on our enrollments to the extent that our enrollments come in stronger in September, in particular. That would be one of the things we'll be looking at closely for future guidance in terms of what the rest of the year will look like. Obviously, the first period that you get into in September is really important for setting yourself up for the rest of the year.

Steven Pawlak
All right. Thank you.

Operator
Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further closing comments.

Stephen Beard
I want to thank everyone for joining us on the call. Thank you for all of your support in fiscal 2024. We look forward to a record-setting fiscal 2025, and we'll talk to you next quarter. Thank you.

Operator
Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.