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Adtalem Global Education, Inc. (ATGE)

Q2 2025 Earnings Call

CORPORATE PARTICIPANTS

Jay Spitzer

Vice President-Investor Relations, Adtalem Global Education, Inc.

Stephen Wayne Beard

Chairman & Chief Executive Officer, Adtalem Global Education, Inc.

Robert J. Phelan

Chief Financial Officer & Senior Vice President, Adtalem Global Education, Inc.

OTHER PARTICIPANTS

Alexander Paris

Analyst, Barrington Research Associates, Inc.

Steven Pawlak

Analyst, Robert W. Baird & Co., Inc.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Adtalem Global Education Second Quarter 2025 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to your host, Jay Spitzer, Vice President of Investor Relations. Thank you. You may begin.

Jay Spitzer

Vice President-Investor Relations, Adtalem Global Education, Inc.

Good afternoon. And welcome to our earnings call for the second quarter fiscal year 2025 results. On the call with me today are Steve Beard, Chairman and Chief Executive Officer of Adtalem Global Education; and Bob Phelan, Chief Financial Officer.

Before I hand you over to Steve, I'll as usual take you to 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 uncertainties that could cause actual results to vary materially.

We undertake no obligations to update publicly any forward-looking statement after this presentation, whether a result of new information, future events, changes in assumptions or otherwise. Please see our latest Form 10-K, Form 10-Q for discussion of risk factors as it 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 for the most directly comparable GAAP financial measures and related information.

You'll find a link to the webcast on our Investor Relations website at investors.adtalem.com. After this call, the presentation webcast will be archived on the website for 30 days.

I will now hand you over to Steve.

Stephen Wayne Beard

Chairman & Chief Executive Officer, Adtalem Global Education, Inc.

Thank you. And good afternoon, everyone.

Today I'm excited to share how Adtalem is transforming healthcare education in America, and delivering exceptional results in the process. The healthcare workforce crisis remains one of our nation's most urgent challenges. Through our family of institutions, we're meeting this challenge head-on by preparing the next generation of clinicians who will serve communities across the country.

Our second quarter results validate that our strategy isn't just working, it's accelerating. Revenue grew by 14% to \$448 million. Total enrollment was up 11.6% year-over-year, improving for the 11th consecutive quarter. We now serve over 91,000 students. And our adjusted EBITDA margin expanded by 440 basis points, driving a 47% increase in adjusted earnings per share to \$1.81 per share. These aren't just numbers. They represent real impact. Every percentage point of growth means more nurses, doctors, social workers and mental health professionals entering communities where they're desperately needed. And we're achieving this growth while maintaining our unwavering commitment to inclusive access, academic quality and student success.

Let me share some concrete examples of how we're innovating to expand our impact. Chamberlain University, the country's largest nursing school, was up 11.5% to another record level of total enrollment. Our BSN Online program, offered in 36 states, now has 44 clinical help locations in metropolitan areas, with a goal of more than 65 hubs by the end of our fiscal year 2026, bringing the clinical experience closer to our students and making quality education more accessible. And if you add our 23 physical campus locations, we're offering nursing programs to qualified students across 43 states.

Walden University continues to thrive, with enrollment up 13.2%. Our new Get the W campaign is resonating. Since launch in early December, we're seeing encouraging student engagement. We're also expanding access through innovative offerings like our Believe & Achieve Scholarship, which provides financial clarity and rewards persistence, as well as our new graduation award for undergraduate students who complete their degrees, also underscoring our support for student success.

In mental health, where nearly half of Americans live in workforce shortage areas, our impact is particularly striking. Chamberlain and Walden together graduated more psychiatric mental health nurse practitioners in 2023 than all other top 20 programs combined. And today, we have over 9,600 aspiring mental health nurse practitioners in our programs. In our Medical and Veterinary segment, the second quarter isn't an enrollment period, but we're seeing encouraging signs that our initiatives are working with January new enrollment demand up year-over-year.

Our clinical Return Home offering with our hospital partners and our USMLE student prep efforts are showing positive results, positioning us for enrollment growth in the near term. We're also leading the integration of AI in healthcare education. Our partnership with Hippocratic AI is already producing clinicians skilled in practical AI applications. And two of our Chamberlain leaders, Dr. Karen Cox and Dr. Kacie Spencer, are pioneering AI tools for diabetes care and infant safety that can make a real difference in patient care.

To accelerate our digital transformation and AI integration efforts, I'm pleased to announce that Michael Betz, President of Walden University, will now also serve as our talented Chief Digital Officer. Michael brings exactly the strategic vision and execution experience we need as we enter this next phase of innovation in higher education. He succeeds Steven Tom, our former Chief Customer Officer, who departed in late 2024. Michael will continue his successful leadership of Walden University, while taking on this expanded role, guiding our digital strategy across all institutions and operations.

Given our strong performance, we're raising our fiscal 2025 guidance. We now expect revenue between \$1.73 billion and \$1.76 billion, with adjusted earnings per share of \$6.10 to \$6.30. Let me be clear about what drives these results. Our Growth with Purpose strategy is fundamentally an operational excellence framework, and it guides everything we do. At its core, it's about rigorous execution, high integrity, continuous process improvement, and disciplined resource allocation.

This operational rigor enables us to expand access to quality education, while maintaining excellence in student outcomes. It's how we're efficiently addressing critical workforce shortages, while delivering value to our shareholders. And most important, it's how we're systematically scaling our impact to change more lives, those of our students and the millions of patients they'll serve throughout their careers.

Every day, I see Adtalem's potential to change the face of healthcare. We have the scale, the innovation, and most importantly, the mission-driven team to make it happen. As we look ahead, we'll continue to invest in growth, while delivering the returns our shareholders expect.

And with that, I'll turn it over to Bob for a deeper dive into our financial results.

Robert J. Phelan

Chief Financial Officer & Senior Vice President, Adtalem Global Education, Inc.

Thank you, Steve. And hello, everyone.

Our second quarter results showcase the financial returns that our Growth with Purpose strategy yields. Consistent execution of our organic growth strategy has unlocked robust returns and cash generation, providing us the ability to balance investing in our business for sustainable growth, strengthening our balance sheet, and returning cash to our owners.

I'll begin with the review of our financial results and key drivers for our performance in the second quarter. Later in my remarks, I will discuss our expectations and assumptions for the remainder of fiscal year 2025.

Starting with the top line, revenue in the second quarter increased by 13.9% to \$447.7 million, driven by all three segments, in particular through enrollment growth at Chamberlain and Walden as our strategic initiatives enhanced our trajectory. Consolidated adjusted EBITDA came in at \$125 million, up 35.1% compared to the prior year from profit growth in all three segments led by Walden and Chamberlain, resulting in an adjusted EBITDA margin of 27.9%, a 440-basis-point increase from last year.

Adjusted operating income was \$101.4 million, up 34.2% compared to the prior year as revenue growth and efficiencies generated operational leverage, which was partially offset by investments in our strategic initiatives. Adjusted net income for the quarter was \$69.4 million, up 38.1% compared to last year, attributed to adjusted operating income growth and lower interest expense resulting from our actions to reduce outstanding debt and lower our borrowing costs, partially offset by a higher provision for income taxes.

Adjusted earnings per share was \$1.81 or a 47.2% increase compared with the prior year. We repurchased 471,000 shares of our common stock within the quarter, resulting in a second quarter diluted shares outstanding of \$38.4 million or \$2.4 million lower than last year.

Next, I'll discuss the second quarter financial highlights by segment. Chamberlain reported second quarter revenue of \$181 million, an increase of 17.9% when compared with the prior year, driven primarily by strong growth in enrollments. Total student enrollment during the quarter increased 11.5% compared to the prior year, the eighth consecutive quarter of both pre-licensure and post-licensure nursing program growth.

Adjusted EBITDA increased by 42.5% to \$52.6 million for the quarter. Adjusted EBITDA margin of 29.1% was 510 basis points higher than the prior year, as our operational leverage outpaced our ongoing investments into our students to support the growth in enrollments, and our focus on improving academic outcomes. A great example is our in-demand BSN Online offering, which grew enrollments at over triple digits year-over-year in the quarter.

Before moving on from Chamberlain, I'd like to provide additional color on our dynamic marketing investments. In the first quarter of this fiscal year, we purposefully increased our marketing investment year-over-year at Chamberlain to leverage our leading position. This quarter, our marketing investment at Chamberlain was flat year-over-year, which has resulted in fluctuations in our quarterly year-over-year adjusted EBITDA margin profile. We have the flexibility to continue to be opportunistic when deploying capital to generate attractive returns, and at times there will be quarterly fluctuations in margin rates as a result.

Turning to Walden, second quarter revenue of \$171.3 million, an increase of 16.7% versus the prior year was driven by strong growth in enrollments. Total student enrollment accelerated in the quarter, up 13.2% compared to the prior year from robust enrollment growth, particularly in the Masters and undergrad degrees, and continued high persistence rates. Within our healthcare programs, the growth was led by social and behavioral health and nursing, with our non-healthcare programs also growing in the quarter.

Adjusted EBITDA increased by 50.2% to \$52.1 million. Adjusted EBITDA margin expanded by 680 basis points versus the prior year to 30.4% as our operational excellence generates efficiencies and leverage, creating a healthy contribution margin that outpaces long-term focused student-facing investments and additional student support commensurate with the high levels of new enrollment.

For the Medical and Veterinary segment, revenue in the second quarter increased 2.8% to \$95.4 million. As Steve mentioned, there is no change in the student enrollment for the second quarter compared to the first quarter. Adjusted EBITDA increased by 1.3% to \$26.7 million. Adjusted EBITDA margin was 40 basis points lower versus the prior year at 28%. We remain focused on operating our institutions with a cost structure generally in line with our current total enrollment level, while making long-term growth investments to leverage the existing capacity at our medical schools.

We believe that we're well-positioned to capture on the prospective medical school student demand represented by the high student application to available seat ratio. And Ross Vet continues to operate near capacity. Across all institutions, we remain focused on creating a seamless student experience from a prospective student's first visit to our institution's website, navigating the application process, assisting them as they map out their education pathway, all the way through to becoming a member of our approximately 350,000 strong alumni community.

Now shifting to cash flow and balance sheet. We continue to enhance our financial strength through robust cash generation and disciplined capital deployment. On a trailing 12-month basis, free cash flow is \$232 million from

strong operational performance, while continuing organic investments to expand our reach and healthcare impact, amplified by our commitment to enhance student outcomes.

Our balance sheet remains healthy, ending the second quarter with \$194 million in cash and a low adjusted EBITDA net leverage of 1.1 times. We repurchased 471,000 shares during the quarter at approximately \$80 a share, continuing to execute on our existing share repurchase authorization, which has \$140 million remaining. On December 31, our outstanding letters of credit balance was reduced by a net \$48 million. Our new letter of credit balance, which represents 10% of our Title IV funding, is \$179 million.

After the quarter-end on January 17, 2025, we further strengthened our balance sheet, repaying \$100 million on our higher interest rate term loan B, which reduces the outstanding balance to \$153.3 million. It's been an exemplary first half of fiscal year 2025 ahead of our original expectations set heading into the year as we relentlessly execute our Growth with Purpose strategy creating greater efficiencies and scale.

As a result, we are raising our guidance with the revenue now in the range of \$1.73 billion to \$1.76 billion, approximately 9% to 11% growth year-over-year, with adjusted earnings per share of \$6.10 to \$6.30, approximately 21.5% to 25.5% growth year-over-year. For the full year, our new revenue guidance level, along with continued efficiencies, is resulting in incremental operating leverage. In turn, we now anticipate greater than 100 basis points of adjusted EBITDA margin expansion in fiscal year 2025. We anticipate an adjusted effective tax rate of approximately 23% for the fiscal year. We will continue our balanced approach to capital allocation, aiming to deploy capital to maximize long-term value, and to generate high returns for all stakeholders. As a part of this approach, our top priority remains to reinvest into our institutions as we execute on expanding our inclusive access mission to achieve optimal capacity and deliver positive student outcomes.

And with that, I'll now turn the call over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. And at this time, we'll be conducting our question-and-answer session. [Operator Instructions] And our first question comes from Alex Paris with Barrington Research. Please state your question.

Alexander Paris

Analyst, Barrington Research Associates, Inc.

Thank you. And thanks for taking my questions. Congratulations on another strong quarter.

Stephen Wayne Beard

Chairman & Chief Executive Officer, Adtalem Global Education, Inc.

Thank you.

Alexander Paris

Analyst, Barrington Research Associates, Inc.

First question relating to guidance. Bob, I heard you, and I was going to ask the question. The raised revenue guidance and the operating leverage you get from that is going to result in greater than a 100 basis points of adjusted EBITDA margin expansion. Just thinking back to Investor Day in 2023, do we expect that sort of operating leverage in 2026 and beyond 100 basis points-plus?

Robert J. Phelan

Chief Financial Officer & Senior Vice President, Adtalem Global Education, Inc.

Yeah, I would say we do still anticipate 100 basis points-plus in fiscal 2026, and that's above what we've just raised here in fiscal 2025.

Alexander Paris

Analyst, Barrington Research Associates, Inc.

Got you. That's great. And then second, the last conference call that we had was in late October. Since then, we've had an election. And I'd be remiss if I didn't ask about your feelings with regard to the Trump administration coming in and likely changes or not in terms of the regulatory environment.

Stephen Wayne Beard

Chairman & Chief Executive Officer, Adtalem Global Education, Inc.

Well, I think the general consensus, Alex, is that the regulatory overhang that the industry is subject to will be lighter. But we're not in a position to speculate about that now. We know that Secretary McMahon is getting settled into her role. We look forward to engaging with her and her team in the near future about how we think about transparency and accountability, but also how we think about expanding our opportunities to serve students and to address chronic workforce shortages in healthcare. So, more to come on that count. But we're looking forward to engaging with the new secretary.

Alexander Paris

Analyst, Barrington Research Associates, Inc.

That's great. And then, I guess the last question, just a miscellaneous question with regard to med-vet, because there's not enrollment data in the second quarter because it's on a semester basis or a trimester basis. I was just

wondering if we can get an update on the remediation plans. I did hear you say that the January enrollment trends look positive.

Stephen Wayne Beard*Chairman & Chief Executive Officer, Adtalem Global Education, Inc.*

They do. We continue to be encouraged by the remediation efforts. They are unfolding consistent with our expectations. Scott Liles and team have done a really fantastic job with those, and we look forward to being able to demonstrate that in the results of operations for that segment next quarter.

Alexander Paris*Analyst, Barrington Research Associates, Inc.*

And then, the last one, just occurs to me on marketing expense. I don't recall of the comments that were made with regard to marketing expense being flat in the second quarter. Was that consolidated or was that just Chamberlain? And then, how should we – what should we expect for marketing expenses in the second half of the year on a year-over-year basis?

Robert J. Phelan*Chief Financial Officer & Senior Vice President, Adtalem Global Education, Inc.*

Sure. The comments were specific to Chamberlain. But what I would tell you is that the comments can apply also to the entire company in terms of where we were at for first quarter and second quarter. So, for the balance of the year, what I would just suggest is that you take a look at what we've done in the past. And while we will grow our marketing on a dollar basis the spend for this year, we anticipate that we're going to grow it at much less of a rate than our revenue. And as a proxy for that last year, we grew our marketing expense at about 4% where the revenue was growing at 9%. So, that would be the way I would guide you for the full year.

Alexander Paris*Analyst, Barrington Research Associates, Inc.*

That's very helpful, and just what I wanted to hear. Thank you. And I'll get back in the queue.

Stephen Wayne Beard*Chairman & Chief Executive Officer, Adtalem Global Education, Inc.*

Thank you.

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

Jeffrey M. Silber*Analyst, BMO Capital Markets Corp.*

Thank you so much. I know you don't provide specific quarterly guidance, but you significantly outperformed analyst expectations. I'm assuming you probably outperformed your expectations as well. Can we just talk about maybe what drove the outperformance, was there a area you would say?

Stephen Wayne Beard*Chairman & Chief Executive Officer, Adtalem Global Education, Inc.*

Well, I think we've got a couple of things working for us. We've got greater efficiency on the marketing spend. We've been really pleased with what Maurice and team have done there. We've got a great new campaign at Walden that we think is driving real interest in our programs, as well as the broader name. The initiatives that we

have around enrollment in particular, we're experiencing incrementally better conversions at the bottom of the funnel, which we're excited about. And we continue to make strides in improving persistence across all five institutions. And that obviously goes a long way towards helping us improve the financial outcomes. So, it's a little bit of everything across the five pillars of the strategy, but I would highlight are persistence and marketing, and in particular gains at the conversion level at the bottom of the funnel.

Jeffrey M. Silber*Analyst, BMO Capital Markets Corp.*

All right. That's really helpful. I was also wondering if you could just maybe get us up to speed on the competitive environment. I know it doesn't specifically change quarter to quarter, but I'm just curious what you're seeing out there.

Stephen Wayne Beard*Chairman & Chief Executive Officer, Adtalem Global Education, Inc.*

Well, I think, we've got very competitive environments across a couple of our large products. Nursing is a competitive environment for us. Medicine remains a competitive environment for us. That having been said, we continue to enjoy market-leading positions, and in some instances continue to take share. That's certainly true in post-licensure nursing, particularly [indiscernible] (00:22:48) BSN product, and we continue to feel good about our ability to gain share over time in medicine, particularly as it relates to some of our Caribbean medical school competitors. So, I think the healthcare education thesis is one that's attracted a lot of attention across the industry. I know lots of folks in various ways are seeking to move in that direction. But obviously we've got longstanding positions of strength across medicine, veterinary medicine, nursing and behavioral health. And we've got what we think are fantastic strategies for expanding our competitive moat in all of those products.

Jeffrey M. Silber*Analyst, BMO Capital Markets Corp.*

All right, great. Thanks so much for the color.

Stephen Wayne Beard*Chairman & Chief Executive Officer, Adtalem Global Education, Inc.*

Of course.

Operator: Thank you. And our next question comes from Steven Pawlak with Baird. Please state your question.

Steven Pawlak*Analyst, Robert W. Baird & Co., Inc.*

Yeah, thank you. On the second half guidance and sort of what's implied for revenue growth, obviously, the first half has been really good, and you talked about some of the factors that are driving the outperformance. But what factors, I guess, are you contemplating or maybe that we need to consider in terms of the implied step-down in second half growth rate?

Stephen Wayne Beard*Chairman & Chief Executive Officer, Adtalem Global Education, Inc.*

I'll start, and I'll let Bob add some additional color. So, I think we've got more challenging comps in the second half of the year, that's part of the dynamic. Obviously, when we are in a position as we are this quarter, to raise the guide, we do that on a risk-adjusted basis. And so, we're obviously looking to be prudent and thoughtful. But if we

get new information in subsequent quarters, we'll adjust further. But we've just got more difficult comps in the back half, and we signaled that at the beginning of the fiscal year. I know in Bob's commentary last quarter and the quarter before that, we were clear that the second half of the fiscal year would be incrementally slower than the first.

But Bob, feel free to jump in with any additional color.

Robert J. Phelan

Chief Financial Officer & Senior Vice President, Adtalem Global Education, Inc.

No, the only thing I would add is that we do still have a strong back half of the year. So, in terms of getting to the guidance we provided, the 9% to 11% growth, it does require us to still have a strong back half of the year, although slightly below where we were at for the first half.

Steven Pawlak

Analyst, Robert W. Baird & Co., Inc.

Okay. And now on the digital transformation that you kind of alluded to with Michael Betz, anything you can provide there in terms of color on what's being done, maybe what's incremental, and I guess is incremental to the Growth with Purpose strategy? And is it – I guess, is there opportunity to accelerate sort of beyond that with some of these digital initiatives?

Stephen Wayne Beard

Chairman & Chief Executive Officer, Adtalem Global Education, Inc.

Yeah, I appreciate the question. So, we're in year two of Growth with Purpose, which we've articulated is a three-year strategy. And as we get into the back half of that strategy, incrementally more and more of the initiatives we're driving have a tech dependency. And so, it was really an opportune time to have Michael take responsibility for our digital center of excellence, because he comes at it not only as a marketing leader and a technologist, but he comes at it as a consumer of those services, as someone who actually runs one of our institutions.

And so, he'll take charge of our core tech stack, as well as our product engineering, our data science, and all of our innovation activities. And he'll bring this perspective of both an operator and a technologist to that, which gives us greater assurance that those back half initiatives in Growth with Purpose that are particularly tech focused are ones that we're going to be able to execute against as well or better than the initiatives that we ran in the first half of that strategy.

Steven Pawlak

Analyst, Robert W. Baird & Co., Inc.

Excellent. Thank you very much.

Operator: Thank you. [Operator Instructions]

Thank you. And with that, we will conclude today's conference call. All parties may now disconnect. Thank you for your participation.

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