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APOL - Q4 2014 Apollo Education Group Inc Earnings Call

EVENT DATE/TIME: OCTOBER 21, 2014 / 12:30PM GMT

OVERVIEW:

Co. reported 4Q14 revenue of $710m, net income from continuing operations of $32m and EPS from continuing operations of $0.29. Expects FY15 net revenue to be $2.80-2.85b and 1Q15 revenue to be $720-730m.

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PRESENTATION

Operator

Good morning, and welcome to the fourth-quarter and FY14 earnings release conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please refrain from entering into the queue until those instructions are given.

(Operator Instructions)

There will be a replay of this call available through October 28th, beginning two hours after we conclude today. I will now turn our call over to Beth Coronelli, Vice President of Investor Relations. Ms. Coronelli, please go ahead.

Beth Coronelli *- Apollo Education Group Inc - VP of IR*

Good morning. Thank you for joining us. Participating on the call are Greg Cappelli, Chief Executive Officer of Apollo Education Group; and Brian Swartz, Senior Vice President and Chief Financial Officer.

As we discuss our results today, unless noted otherwise, we will be comparing the fourth-quarter of FY14 to the fourth quarter of FY13. I'd also like to remind you that this conference call contains forward-looking statements with respect to the future performance and financial condition of Apollo Education Group and involves risks and uncertainties.

Various factors could cause actual results to be materially different from any future results expressed or implied by such forward-looking statements. These factors are discussed in our quarterly reports and Form 10-K filed with the SEC, which is available on our website. The Company disclaims any obligation to update any forward-looking statements made during the call.

Additionally, we may refer to non-GAAP measures, which are intended to supplement but not substitute for the most directly comparable GAAP measures. Our press release, available on our website, contains the financial and other quantitative information to be discussed today, as well as a reconciliation of the GAAP to non-GAAP measures.

With that, I will now turn the call over to Greg.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Thank you, Beth, and good morning, everyone. Today I'll provide an update on the progress we've made the past fiscal year, and then discuss the future. Brian is going to provide additional color, of course, around our financials and outlook.

At the beginning of FY14, we defined three important strategic objectives for Apollo, and you'll recall those were, one, to differentiate University of Phoenix and our colleges; two, to diversify Apollo Education Group; and three, to create a more efficient organization with a strong focus on customer service. I'm pleased to say that while there is still much work to be done in these key areas, we've made substantial progress this past year.

Let me just quickly recap all three, first, differentiating the University of Phoenix. This past year, we've realigned the university around eight distinct colleges, which, in short, is expected to provide a much better student experience, improve student outcomes, significantly support the competitive nature of each college, and increase the speed with which we can innovate and recapture market share.

We added new leaders and have a strong team to move the University forward. Tim Slottow took over as the new President of the University of Phoenix in June, and is off to a great start. We also now have new executive deans in place for each of our schools to lead the college-specific strategy. We expanded the breadth and depth of our offerings, with focus on programs connected to in-demand jobs. This included refreshing over 540 courses, launching 30 new programs, adding 47 new certificates, and providing students new career service tools.

Also, to enhance the learning experience and support improved outcomes, we introduced the new core sequence for incoming students. We increased the use of full-time faculty and rolled out our new online classroom.

To address affordability, we restructured and our upper and lower division pricing and added some new scholarships, including the Phoenix Scholarship Rewards Program, which really encourages student retention.

From a results perspective, our total enrollment at the University was 233,500 at year end, that was above our expectations of 230,000. We had over 70,000 graduates, bringing our total graduates to approximately 880,000. The rate of decline of our new enrollments did improve at a steady level throughout the entire year, with fourth quarter coming in ahead of our expectations, down about 5.9%.

We also made good progress around our retention efforts in FY14, with the new introductory course sequence, additional full-time faculty, gamification for certain courses, and again, the Phoenix Scholarship Rewards Program, just to name a few.

With that said, we recently experienced a short-term disruption with the massive student conversion from our old online classroom to our new significantly updated learning platform. Brian's going to share some additional details around this in his comments, but suffice it to say, remediating these issues, that's our top near-term priority. More on that in just a minute.

With respect to diversification, we again made meaningful progress in 2014, one, by growing our existing Apollo Global business while expanding our global footprint, and two, developing new growth opportunities.

Now, with respect to Global, we feel more positive every quarter that goes by. We added Open Colleges Australia and Milpark Education to our global network this year. With this expansion into Australia and South Africa, Apollo now has institutions based on six continents, and we're well positioned in key markets around the world. We're pleased to report that each of our global institutions, they grew in FY14. As an example, Open Colleges significantly exceeded our growth projections.

BPP, that's our largest subsidiary right now, it returned to profitability, with revenue growth in the high single digits year over year. BPP continued to gain market share, with 38 of the top 50 law firms in the UK now hiring exclusively from BPP's law school. In their professional development business, KPMG UK committed to have new hires trained by BPP.

In Chile, IACC developed an online risk-management program working closely with leading mining companies to support one of Chile's largest industries. And in India our Bridge School of Management is now serving multiple cohorts in its flagship post-graduate management program, and has launched a new predictive business analytics program. In Mexico, ULA expanded its learning centers and is seeing above-market growth in its working adult program. They also received the prestigious "University of Excellence" designation, with only the top 3% of universities in Mexico having earned this honor.

Now, addressing the second component of our diversification strategy, targeted opportunities for growth. We created a Professional Development Group to expand our continuing education and certificate offerings. This group will also develop new, relevant career-connected education for the $100 plus billion corporate learning market. In the past, we've really had limited capabilities to compete and take market share in this growing portion of the market, but that will change in 2015.

Also this past year, we completed a successful web development boot camp pilot with a completion rate of nearly 90% and more than 75% of participants attaining a job within a month of finishing the program. We also launched a multi-industry skills job marketplace, connecting learners, course providers, industry experts, and employers together.

In keeping with our focus on allocating capital to high returning businesses, we made the difficult decision to exit the domestic services business until there's a more level, competitive playing field from a regulatory perspective. We sold the Institute for Professional Development in the fourth quarter of 2014.

Now, our third corporate objective revolves around operational excellence and efficiency while providing a great student experience. In 2014, we finished much of the work around the campus realignment. We strengthened our technology infrastructure, we enhanced efficiencies in our marketing spend and performance, and improved student support services. These are just a few examples of actions contributing to the significant decrease in our cost base, as well as increased efficiency and effectiveness.

As we look to the future, our actions are guided by our commitment to grow by providing relevant, flexible higher education, making unemployed learners job-ready, and employed learners more productive in their careers and communities. We're excited about the opportunities in the post-secondary higher education industry; that's now projected to be $2 trillion globally. Apollo is positioned better than ever to capture market share in the coming years.

In 2015, our continued focus is on student success and improving outcomes at our schools worldwide. Our long-term success is clearly dependent on meeting this important goal. We're implementing growth strategies across the organization, and this includes investments in Lightspeed, Western International University, and Professional Development. At West, we're adding three new programs in November and are piloting a competency-based program later this fiscal year. We're also working to expand the network of students we serve through Apollo Global.

We're building stronger relationships with major employers and adapting our curriculum and approach to help solve their human capital needs. We're committed to educating current and future employees and helping make them productive from day one.

We're also building scalable talent development and education solutions to engage students and help employers recruit, retain, and develop a high performance, diverse, and global workforce. This includes degree programs, continuing education, certificates, boot camps, and other innovative approaches to connect our education directly to careers.

Just quickly on the regulatory front, we continue to actively engage with policy makers at the state and federal regulatory agencies to share how our core business practices are differentiated. Our goal is to position ourselves as the leader in high-quality student education, advisement, support services, and student protections. On this note, our actions and investments in this critical area clearly speak for themselves.

Now, in 2015, a major theme within our organization will be to simplify all of our business processes, and this work is already underway. We're leveraging our best practices and better aligning processes, systems, and people to provide an outstanding experience for all of our students and customers globally.

Finally, the leadership team at Apollo is in the process of refining a new five-year outlook, with aspirations to significantly grow our market share and revenue base over this time period. We'll be providing more detail on the future, but in general, it includes a combination of organic growth opportunities, partnerships, and some strategic acquisitions. We plan to do this by continuing to stabilize and responsibly return University of Phoenix to growth, expanding and growing Apollo Global and our other domestic businesses, and investing in growth opportunities around professional development.

We expect our revenue mix to be much more balanced over this time period. We'll also continue our diligence around managing our cost structure, with focus on healthy margin expansion over the long term.

And with that, I'll turn the call over to Brian.

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

Thank you, Greg, and good morning, everyone. I'll review our financial results, provide an update on our two largest business units, and then I'll share our outlook for 2015.

To quickly recap our fourth-quarter results, revenue was $710 million, operating income was $42 million, and net income from continuing operations was $32 million, or $0.29 per share. Excluding special items, operating income was $57 million, and net income from continuing operations was $37 million, or $0.34 per share.

In the fourth quarter, substantially all expense line items decreased on a year-over-year basis. Since 2012, we have lowered our cost base by roughly $900 million. Approximately 80% of the savings have been from costs that are more fixed in nature. We have increased the efficiency and effectiveness of Apollo, while simultaneously enhancing the student experience.

Focusing on the University of Phoenix, revenue for the fourth quarter was $612 million, with operating income of $83 million. Consistent with our drive to ensure quality and enroll students who have a higher likelihood of succeeding in our programs, during the fourth quarter we experienced a year-over-year decline of 5.9% in new enrollments. We have now experienced improvements in the rate of decline in new enrollments for five out of the last six quarters, and are pleased with the progress we've made.

In the fourth quarter, as Greg mentioned, we completed the roll-out of the new online classroom. As a result of this classroom conversion, revenue per student was impacted in the fourth quarter. Revenue per student was down approximately 9% year over year, with the classroom conversion representing about one-third of the decline.

While we are actively addressing these platform issues, we are prudently building in some impact on revenue per student in the first half of 2015, and expect it to be down around 8% in the first quarter and then steadily improving thereafter, moving toward flat by year end.

With a focus on differentiating the University of Phoenix's eight colleges, we have evaluated the value proposition for each college closely. Effective in November, we have made several by-program price changes, both increases and decreases. Additionally, we continue to see a positive response to our scholarship programs, particularly the Phoenix Scholarship Reward Program, which allows students to earn up to $10,000 if they remain continuously enrolled. Students who use this scholarship are more engaged and retain better.

With our continued focus on operational excellence and efficiency, while also investing in instruction, the University of Phoenix has maintained a healthy margin. The 2014 operating margin was 18.5%, or 20.9%, excluding special items. As we look to 2015, we do anticipate University of Phoenix to maintain margins, excluding special items, in the high teens.

Regarding cohort default rates, the official 2011 three-year rate for the University of Phoenix decreased to 19%, down 700 basis points from the prior year. This decrease is a result of a significant focus on student support, advisement, and protections. Based on current trends, we expect this rate to continue to decrease next year.

University of Phoenix has experienced steady declines in its 90/10 ratio over the past two years. In FY14, 90/10 decreased 200 basis points to 81%. As Greg pointed out, we're excited about the performance of our fastest-growing division, Apollo Global. Each of our global businesses is growing.

In 2014, we expanded our network with the addition of Open Colleges and Milpark, both representing great opportunities in strong growth markets. Open Colleges, as an example, is expected to grow at greater than 20% for the next three to five years and is performing significantly above that today.

In our earnings release, we are now including an adjusted operating income metric to provide further transparency and a more meaningful measure of operating performance for Apollo Global. Going forward, we believe this metric will help you better value this important business segment.

For 2014, Apollo Global reported an operating loss of $74 million, compared to $60 million in 2013. However, after adjusting for depreciation, amortization, and other special items, the adjusted operating income improved to a loss of $22 million in 2014 from $27 million in 2013.

Open Colleges significantly impacts Apollo Global's operating results and represents about $16 million of the 2014 adjusted operating income loss. We expect, due to Open Colleges' high growth trajectory, for the loss to be about the same or slightly higher in 2015.

As a reminder, Open Colleges incurs a substantial portion of its operating costs up front, while recognizing revenue over the contractual period of service, which extends beyond one year. It is important to reiterate this does not impact Open Colleges' ability to generate significant cash flows.

Looking to the next several years, we anticipate steady growth at Apollo Global, both organically and through acquisitions. Apollo Global has a 2015 revenue run rate of $400 million, and we have plans to grow this to a $1-billion plus business within the next five years. We also expect our Apollo Global operations to be operating cash flow positive by the end of 2015.

Turning to the balance sheet and cash flows, we continue to maintain a well-capitalized balance sheet and generate healthy cash flows. At year end, our cash and marketable securities were approximately $1.5 billion.

While our debt balance was $657 million, we repaid the entire $585 million drawn on our revolving credit facility, subsequent to year-end. Our adjusted free cash flow for the full year was $275 million. We invested our free cash flow to repurchase our two new international operations and also repurchase shares totaling $160 million.

Now I'd like to update you on our business outlook, which is based on our current view and forward projections. Our financial range for FY15 is as follow, net revenue of $2.8 billion to $2.85 billion, and operating income excluding special items of $300 million to $325 million.

With respect to Apollo Education Group, we expect Apollo Education Group to stabilize in 2015 and return to growth in 2016 and beyond. We are realigning the University of Phoenix around the eight colleges, have a new President and leadership team in place, and are seeing improved trends in new enrollment. We expect to end 2015 with about the same number of total students we had at the end of 2014, plus or minus a few percentage points.

Finally, as I discussed above, Apollo Global, our fastest growing segment, is becoming a meaningful part of our businesses. However, we expect this growth to impact the 2015 reported results, particularly as it relates to Open Colleges' profitability, as I discussed earlier.

The following additional key assumptions are also included in our outlook: we expect University of Phoenix's calculated persistence rates to be down year over year in the first half and improve in the second half of 2015, as we address the new online classroom transition. From a cost perspective, given our investment in academic quality as well our global diversification, our variable costs are expected to be approximately 15% of revenue. Our remaining costs are expected to be to roughly flat to slightly down in 2015 compared to 2014.

Our domestic and international college presidents see increased opportunities to invest in academics and the educational experience. And accordingly, we expect to see an increase in instructional costs, while at the same time reducing our marketing costs in total dollars. Finally, we anticipate our 2015 income tax rate to be approximately 41%, excluding special items.

Further, we expect the progression of the quarterly earnings to be skewed to the back half of 2015. This is due to the expected recovery and stabilization of the University of Phoenix, including its classroom transition, the full impact of our 2014 acquisitions, as well as growth in the professional development area.

We expect to report revenue in Q1 between $720 million and $730 million, and operating income, excluding special items, of $70 million to $75 million. We also expect Q3 to be our strongest seasonal quarter in 2015, and for the second half of 2015 to represent approximately three-fourths of our profit.

With respect to new enrollments at the University of Phoenix, we do expect improvement through the year, and we believe that the year-over-year rate of decline in the first quarter will not be any worse than the fourth quarter of 2014.

Finally, as Greg mentioned, we are developing a long-term path to achieve significant revenue and profit growth, by expanding our domestic footprint with additional product offerings, as well as continued international expansion into the worldwide post-secondary education market.

And with that, I'll turn the call over to the operator to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Jeff Volshteyn from JPMorgan.

Jeff Volshteyn - *Apollo Education Group Inc - Analyst*

Good morning, and thank you for taking my question.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Good morning, Jeff.

Jeff Volshteyn - *Apollo Education Group Inc - Analyst*

Good morning. I wanted to get a little more detail on the shift in online students and the components of how that impacted revenue per student.

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

Jeff, when you say the shift to online students, you mean the amount of students that are online today versus --

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Jeff Volshteyn - *Apollo Education Group Inc - Analyst*

No, no, no. You mentioned there was a technical issue with the old platform and the new platform, and there was a shift to the new platform. Can you give a little more color on how that impacts mathematically revenue per student.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Sure, Jeff. This is Greg. Thanks for the question. The easiest way to explain the new platform, it's like going to the iPhone 6 from an analog cell phone model, from a number of years ago. There is a very large student body that is transitioning onto this system, and there's a lot of tremendous good things about the new platform that we're very excited about, including a ton of data that we're going to have before that we never had, that we'll be able to put analytics around and have more real-time interaction in terms of things we can do with students, faculty, and the University in general. However, there's additional training that needs to be done. There's a few bugs and things in the system that are being worked out. It's a big priority for us. We probably had some students stop out temporarily because of some of the issues.

This is not a huge part of the student body by any means. It's reasonable. We have a team on it. We expect it will get fixed over the near term.

Jeff Volshteyn - *Apollo Education Group Inc - Analyst*

And if you look at components of revenue per student, is there a way to quantify how much of that is coming from the Phoenix scholarships versus this one-time item?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

Yes, Jeff, about one-third of it, so about 3 percentage points of the 9% decline in Q4 is related to the disruptions on the roll-out of the new classroom Greg mentioned. The balance is all consistent with what we saw in the first three quarters of the year, which is principally around the pricing changes we made about a year ago.

Jeff Volshteyn - *Apollo Education Group Inc - Analyst*

Thank you. That's very helpful.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Thank you, Jeff.

Operator

Your next question comes from the line of Sara Gubins from Bank of America. Your line is open.

David Chu - *BofA Merrill Lynch - Analyst*

Hi, this is David Chu for Sara Gubins. So does revenue per student decline for the new classroom, because it's just more expensive to roll out the platform?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

No, it's not because it's more expensive; it's because students posting attendance throughout Q1 -- well Q4 and into the first half of 2015, they'll be posting less nights of attendance. We will therefore have less revenue, but we'll have the same number of students in the total student count.

Again, it's a transition issue. Once we address the online transition issues through the first half of 2015, we expect that to stabilize as the year moves on.

David Chu - *BofA Merrill Lynch - Analyst*

So even if the they wanted to take more classes, they just cannot?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

It's not a matter of they cannot. They're attending less classes, and, therefore, we're recognizing less revenue from that. It's not a matter of whether or not they can't. They can take more classes if they like. It's just we're working with them on the transition to the new software.

Greg Cappelli - *Apollo Education Group Inc - CEO*

There is a learning process involved, and we think some of the students are taking fewer classes because of that.

David Chu - *BofA Merrill Lynch - Analyst*

Okay. And is it possible to provide some start expectations for FY15? Do you expect to return to start growth in the first quarter?

Greg Cappelli - *Apollo Education Group Inc - CEO*

We don't expect it to get any worse in the first quarter. What we said is we do expect the progression to continue to get better over time, similar to what we said last quarter. You can see in five of the last six quarters that's been the case, and we're going to continue to work very hard through the complete reorganization that we've gone through to get very competitive and to make sure we're offering a very good value proposition to students to take market share back.

David Chu - *BofA Merrill Lynch - Analyst*

Okay. Great, and last follow-up. Are you seeing any changes to the macro environment? Would you say things are getting slightly better?

Greg Cappelli - *Apollo Education Group Inc - CEO*

Yes, they probably are.

David Chu - *BofA Merrill Lynch - Analyst*

Okay. Thank you very much.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Thank you.

Operator

Your next question comes from the line of Suzanne Stein from Morgan Stanley. Your line is open.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Hi, Suzi.

Denny Galindo - *Morgan Stanley - Analyst*

This is Denny on for Suzi this morning.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Hi, Denny.

Denny Galindo - *Morgan Stanley - Analyst*

Hi. I had a question following up on the new system. The bad debt expense was a little -- up a little bit in the quarter. Is this a sign of people getting frustrated with the new system and dropping out, or maybe it's something to do with the mix of incoming students? Could you give a little color on that?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

Yes, no it's really related -- it ticked up just a little bit, very, very slightly, simply because our new enrollment trends have improved. So as our new enrollment trends improve, we do expect that to happen. Going forward, I would expect the 2% level, which is kind of where it's at, to be a good number for bad debt expense.

Denny Galindo - *Morgan Stanley - Analyst*

Secondly, the G&A was down quite a bit in the quarter. Usually it's up sequentially in Q4. Are there some seasonal effects that are starting to change as your network changes, or was this just the results of your cost-cutting efforts from last year, just finally dropping down to the numbers?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

It's the latter, just really cost cuts. I think the $70 million to $75 million run rate per quarter for G&A is a good number.

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Denny Galindo - *Morgan Stanley - Analyst*

Okay. Thanks a lot.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Thank you.

Operator

Your next question comes from the line of Jeff Meuler from Baird. Your line is open.

Jeff Meuler - *Robert W. Baird & Co. - Analyst*

For me Greg, we've had some head fakes in the past on enrollment, and you're sounding somewhat confident that things are in fact turning and that you expect stabilization in terms of total enrollment by year end. What are you seeing in terms of student mix or motivation for why they're enrolling or what channels they're coming through or whatever it is that gives you the confidence that this is not a false inflection, like we've had at times in the past, but that gives you that confidence that it is indeed inflecting this time.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Good question, Jeff. We experienced a good level of lead flow in Q4. We were able to optimize lead flow with higher conversions, so more students coming in. Some of that was towards the back of the quarter, but nonetheless, it happened. Our enrollment advisors are having more meaningful conversations with students with college -- about the college realignment.

We've experienced some productivity stabilization in the eight-college realignment, use of some targeted scholarships. It's one thing to talk about the average revenue per student or even the use of discounts. For us, it's very targeted, and the more that use that, we know those are students that stay longer. I think it's a combination of the things.

And then as I said before on the macro level, there's no guarantees on that front, but it feels a little better on that front. So we set out, as we said very clearly at the beginning of FY14, we want to make Apollo and the University of Phoenix much more competitive. It's not going to be easy.

We've brought in some new capabilities, some new talents. We had a major realignment. We're listening to CEOs across the country to try to solve their human capital needs, and this is our expectation. We are just simply executing on the strategy, the goals, and we expect to continue to drive forward.

Jeff Meuler - *Robert W. Baird & Co. - Analyst*

Okay. And then if you look at the FY15 expected impact from the new student learning systems or the new systems transition between expenses and revenue per student, what is the total expected hit? And is that fully included in the operating income guidance or is there going to be some expense related to it that you're going to call a special item?

Greg Cappelli - *Apollo Education Group Inc - CEO*

We're not predicting some additional special hit. Yes, it is incorporated into the guidance. I think, again, it's a very top priority to make sure we get this humming and running the way it should be running. There was a lot of investment put into it. It's a great platform. There's been third-party validation. But it is very, very new and different than the old system that a large student body was used to. We are continuing to beef up training, get every link fixed, get every bug out of it. And I expect by the latter half of the year we're going to be in very good shape there.

Jeff Meuler - *Robert W. Baird & Co. - Analyst*

Okay. Thanks, guys.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Thank you very much.

Operator

Your next question comes from the line of Corey Greendale from First Analysis. Your line is open.

Corey Greendale - *First Analysis Securities - Analyst*

Good morning.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Hey, Corey.

Corey Greendale - *First Analysis Securities - Analyst*

First, wanted to ask about the guidance on enrollment. If -- by my calculation, to get to about flat total enrollment by the end of the year, you need to see a significant pick-up in new students, like high single digit, even low double-digit beyond Q1. Is that -- is my calculation right and is that consistent with your expectation?

Greg Cappelli - *Apollo Education Group Inc - CEO*

Corey, total enrollment is a reflection of a number of things; new students are certainly a part of it. As I said before, we are continuing to drive to improve that metric for all the right reasons to responsibly grow University of Phoenix again. But also retention's a big part of that as well, and it's been our number one goal.

It's interesting, so many good things happening on retention, you can have a small hiccup in something like the platform to get a temporary setback. We did mention it wouldn't be straight up and to the right a number of times the past year, but really it's a combination of both those things. You don't need to have double-digit starts necessarily to achieve that goal at the end of the year. Retention is a part of it.

We are looking to continue to see improvement over time in the new enrollments by being more competitive.

Corey Greendale - *First Analysis Securities - Analyst*

And is the transition to the new platform, in your view, affecting new students or is it purely a retention in number of classes issue?

Greg Cappelli - *Apollo Education Group Inc - CEO*

I think it's both. It's both. It's fixable. We have people all over it.

Corey Greendale - *First Analysis Securities - Analyst*

Okay. What was the timing? When, as narrow as you can be, what was the timing of when the new platform was rolled out?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

It happened kind of right in the middle of Q4, more or less, to most of the undergraduate students, which for Q4. So, we rolled it out, I think it was right around the early to mid-June time frame.

Corey Greendale - *First Analysis Securities - Analyst*

And I realize this is pretty subjective, but would you say it is already on the improve or is it still -- is the issue still prominent at this point?

Greg Cappelli - *Apollo Education Group Inc - CEO*

It is already being improved. We've seen some of that already. I will not be satisfied until it's close to perfect. So as I said, we have a very capable team working on it. We have outside folks working on it. It's disappointing that there was an issue at all. I guess with this size and type of an upgrade to the level we went to at the stage and pace we went to it, some of it can be expected. But it will get better, in my opinion.

Corey Greendale - *First Analysis Securities - Analyst*

One last quick one for Brian. I think you said you expect similar, slightly greater loss at Open Colleges. Did you give indication of what you expect for overall Apollo Global loss or profitability in FY15?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

Not a direct number, but we do expect it to improve, absent the Open Colleges, so excluding Open Colleges it will improve in FY15 versus FY14.

Corey Greendale - *First Analysis Securities - Analyst*

Thank you.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Thanks, Corey.

Operator

Your next question comes from the line of Peter Appert from Piper Jaffray. Your line is open.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Thanks. So Greg, your comments about failure to regain market share might suggest you intend to remain pretty aggressive from a pricing standpoint. Is that a fair conclusion? And might that then suggest we should anticipate that revenue per student could continue to trend a little bit lower for the next couple years?

Greg Cappelli - *Apollo Education Group Inc - CEO*

It does not suggest that. Pricing is one component of the value equation that we've laid out for students. So what we need is a very competitive, very good product and service for all of our students at all of our schools globally.

There are things we're learning from different places around the world. We are truly becoming more of a network that's talking to one another, whether it's faculty, students in some cases, different kinds of employees. But we looked at something like the targeted Phoenix scholarship program. That's targeted, and when we get more students in that area, we know we keep them longer, so that's an example.

Look, there's no question that you have to be in the game generally on price. I think we are. And we're not looking to drive volume by just cutting price; that's not our strategy. I know some are probably doing that, but we're looking to drive market share gains through a product and service that the consumer, on the one hand, and the employer on the other say, this is really good. They're training people to close our skills gaps, and they're doing it here and abroad. They're listening to us. We're delivering what they want in a quality way, for a price that seems fair. That's what we're after.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Fair enough. And then unrelated to that, your appetite for further international acquisitions, are you in digestion mode now, or do you still see opportunity to expand the footprint?

Greg Cappelli - *Apollo Education Group Inc - CEO*

Both, and we've gone at a pretty reasonable pace here. Our global team, number one, as you've heard me say in the past is -- they have a great deal of capability that we didn't have in years past. So the talent that is there, the resources are there, they pick their markets carefully around the world.

I mentioned the $2 trillion of spending. Obviously, there's a portion of that that we're looking at in very specific geographic regions. We think we're positioned well.

But no, you can expect us to have some activity. Obviously it hasn't been huge dollars on the acquisition front, but strategically, you can expect us to enter some new countries and to get more aggressive in some of the existing countries where we now are having a greater level of respect.

As I said, every area of Apollo Global is growing; they're on a $400 million run rate. We expect profitability in the not-too-distant future, as Brian said. And I'm really excited about their growth over the next three to five years.

Peter Appert - *Piper Jaffray & Co. - Analyst*

That's great. Thank you. One last thing, can you just remind me what the authorization on that repurchases that's left and how aggressively you think you would pursue buybacks here going forward?

Greg Cappelli - *Apollo Education Group Inc - CEO*

I'll just say that it's absolutely part of our capital allocation strategy, as it has been over the last five, six years. And Brian, do you have the --

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Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

There's $90 million left as of the end of the year.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Thank you.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Thanks, Peter.

Operator

Your next question comes from Paul Ginocchio from Deutsche Bank. Your line is open.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thanks. Brian, a question around the IPD disposal, that's not -- the losses there are not included in that $75 million of other losses that you break out in other income; is that correct?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

That's correct. We treated that as a discontinued operation. So it's all below the line, below the net income line, shown as a discontinued and it's not shown in the segments.

Paul Ginocchio - *Deutsche Bank - Analyst*

Great. And sorry, what was the losses that disappeared with IPD?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

You know what? I actually -- let me see if I have those handy. If I don't, they should be in the 10-K.

Paul Ginocchio - *Deutsche Bank - Analyst*

I'm just wondering with the better new enrollment trends and improving persistence, and I just wondered why it seems like the EBIT number's a little bit lower. I wanted to know what the bridge was from what you just reported into FY15.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Let me just explain one thing, Paul, part of the EBIT number in general overall is a reflection of what Brian said earlier. We have very capable people at our divisions, including the University of Phoenix, that are asking for capital, because they see exciting growth opportunities. So we are making additional investments at this point back into the University of Phoenix, because we have the confidence to do it.

Brian, do you want to add anything to that?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

With respect to IPD, to answer a question, in FY14, there was $23 million in revenue and about $11 million in EBIT losses. Again, those are not included in the segment. They're down below; it's shown as a discontinued operation.

And then with respect to 2015, I would just -- this is the first time we provided 2015 guidance, and the number is in line with our plan. And as Greg mentioned, reflects the investments we need to make to achieve growth in the outer years.

Paul Ginocchio - *Deutsche Bank - Analyst*

If I could just clarify that, how much of the -- the difference in EBIT maybe between '14 and '15. How much of that is going to grow so you can return to growth?

Greg Cappelli - *Apollo Education Group Inc - CEO*

We didn't clarify that, but there is a fairly significant portion that we elected to put back in, not only to the University of Phoenix, but some of the other subs. Frankly, because we see the opportunities and we have confidence. We think we can take market share back from the Apollo Education Group perspective.

We're balancing that with the margins, the responsibility we have in the financial front long term, but again, we're looking to go on the offense here, as I mentioned last quarter, and we're on our way to doing that.

Paul Ginocchio - *Deutsche Bank - Analyst*

Great. Just a final, we expect admissions and marketing up this year, year on year in 2015 versus 2014.

Greg Cappelli - *Apollo Education Group Inc - CEO*

When you say admissions and marketing, do you mean the expense related to that?

Paul Ginocchio - *Deutsche Bank - Analyst*

Yes.

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

Marketing will be down in total dollars, as I mentioned in my remarks. We do expect instruction to be basically flat to up, and admissions to probably be up as well, just reflecting our international operations where we're growing pretty significantly.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thank you.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Thanks, Paul.

Operator

Your next question come from the line of Trace Urdan from Wells Fargo Securities. Your lines is open.

Trace Urdan - *Wells Fargo Securities, LLC - Analyst*

Thank you. Good morning.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Good morning, Trace.

Trace Urdan - *Wells Fargo Securities, LLC - Analyst*

Greg, you guys have talked about the new platform for a while now. You told us a little bit about it at the Investor Day. I wonder if you could step back and make the business case. Where do you think the -- where will we see the benefits of the new platform? Will it be in terms of outcomes? In terms of persistence? Can you talk to that a little bit?

Greg Cappelli - *Apollo Education Group Inc - CEO*

I sure can, good question. I think that is definitely part of it. It's in the interactions with students, it's the capability, it's the data that we get real-time, what's happening in the classroom so that we can make more immediate changes. It is customer satisfaction. It's the capability it has for the student as well, that we didn't have before.

So we think it's going to enhance the overall learning experience, provide us more data and feedback, allow us to move quicker with changes that we know faculty and personnel at the University are going to want to make. It's that and a combination of other things. Hopefully that answers the question.

Trace Urdan - *Wells Fargo Securities, LLC - Analyst*

Thank you. And then, you made some reference in your prepared remarks to diversifying your revenue stream a bit. Can you tell us, is there some point where we can expect some of the corporate revenue to become material enough that you'll break it out? And can you maybe -- if that's not the case in the near term, maybe just talk about the relative growth rates and the different streams of revenue that you're starting to bring in to the business.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Absolutely. We'll definitely provide some color on that going forward, and that's a reflection of Apollo Group really having one vehicle in all economies, all seasons, as a product offering. And we've obviously learned over the years that we need a more diversified offering, both domestically and internationally. The reason for that is because we're sitting down with numerous companies and their executives to understand there is a lot of frustration to this moment about finding the appropriate talent, having it skilled up on an on-time basis and in place and then having it stick.

We can't solve all their needs by putting everybody in a degree-granting program. We certainly will continue to solve a portion of their needs, and we know that there's over 100 million people in this country in the labor force without a degree. But we've certainly listened and learned, and we're designing and building products so that they don't leave the Apollo Education Group system, so that when they need someone trained for three months or a year, we have the capability to do that quickly and efficiently for them.

Trace Urdan - *Wells Fargo Securities, LLC - Analyst*

Okay, last question, Greg. You guys referenced the boot camp. Can you expect to see a more robust roll-out of that program this year?

Greg Cappelli - *Apollo Education Group Inc - CEO*

Yes, you will, in FY15. It was very successful, the pilots. They're happy with it, and it's moving forward.

Trace Urdan - *Wells Fargo Securities, LLC - Analyst*

Great. Thank you.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Thanks, Trace.

Operator

Your next question comes from the line of Jeff Silber from BMO. Your line is open.

Henry Chien - *BMO Capital Markets - Analyst*

Hey, good morning. It's Henry Chien calling in for Jeff.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Hi, Henry.

Henry Chien - *BMO Capital Markets - Analyst*

Just had a question about long-term guidance. When do you guys think you'll become more comfortable in giving long-term guidance in terms of growth rates and long-term margins? And what wouldn't give you the confidence to give that type of guidance?

Greg Cappelli - *Apollo Education Group Inc - CEO*

Henry, we're building a plan now. It's -- I'm very comfortable talking about the concept of it right now. We're linking all of our goals to our longer three- to five-year strategy and ambitions.

We had an Investor Day last year in the spring. We will likely do that again. But you will hear more from us on that going forward.

Henry Chien - *BMO Capital Markets - Analyst*

Got it. Thank you. And in terms of special items for the FY15, $300 million to $325 million, could you give some color on the timing of those expenses?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

The timing of the excluded items from there? Were you asking about the special items or were you asking about the $300 million to $325 million?

Henry Chien - *BMO Capital Markets - Analyst*

Yes, sorry, the special items, the timing of the expenses.

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

I want to make sure I understand your question. Are you asking about any -- so the $300 million to $325 million operating income number excludes special items. Are you asking about what's excluded from there or are you asking about what's included in the $300 million to $325 million.

Henry Chien - *BMO Capital Markets - Analyst*

What is excluded and the timing of those special expenses.

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

So generally what's excluded, and it's all in the press release, are restructuring charges, anything related to contingent consideration or acquisitions. There can be other litigation, one-time type items. Sometimes it's a recovery of litigation, which we had in a couple recent quarters.

Generally, those items we exclude from our ongoing operations. We do expect to incur some more restructuring charges as we complete the campus roll-out at the University of Phoenix. As we constantly look at our operations, we could have further restructuring charges. But in general, we don't provide a lot more specific guidance on those, because, again, it evolves over time and we're always very transparent about what they are.

Henry Chien - *BMO Capital Markets - Analyst*

Got it. Thank you.

Operator

Your next question comes from the line of Phil Stiller from Citi. Your line is open.

Phil Stiller - *Citigroup - Analyst*

Hey, guys. I wanted to get a finer point on the guidance. Specifically on the first quarter, you're implying a pretty significant year-over-year decline in the operating income. Can you tell us how much of that is related to the platform issue at University of Phoenix?

Greg Cappelli - *Apollo Education Group Inc - CEO*

Some of it is related to the platform. I'll have Brian comment on that in a minute. Some of it is related to an extremely robust pick-up last year in the fourth quarter and the progression of the timing of our new businesses and as it rolls out going forward, and frankly the recovery at the University of Phoenix, which we've timed and roll out over the course of FY15.

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

Maybe to add a little bit more color to that as well, as I mentioned, we do expect 2015 to be our stabilization year and return to growth in 2016. There's really three distinct things that are skewing the operating profit to the back half of the year. First is the impact of last year's acquisitions in 2014 on 2015. The second item is stabilization of the University of Phoenix classroom issues, including their continued expected trends in new enrollments, which we've seen the last four out of the last six quarters.

And then also in the second half of 2015, we do expect to get some growth in the professional development area, such as the IT boot camp that Greg talked about earlier. All of those are impacting Q1 and how the rest of the quarters roll out.

Phil Stiller - *Citigroup - Analyst*

Okay, and then I guess for Open Colleges, can you provide a bit more detail on the seasonality of the losses there? I think you said they lost about $16 million. It should be about the same this year. Is most of that or even more of that in the first quarter? And they make profit for the rest of the year?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

In general, let me -- with respect to Open Colleges, the thing to understand is the faster they grow, and they are exceeding our expectations, seven, eight months after the acquisition, it has a greater impact on the near-term operating profits because of the timing of expenses and revenue that I talked about.

In general, the seasonality of Apollo Global is they have stronger Q1 and Q3 results and then softer Q2 and Q4 results. Open Colleges is very similar, but in a high growth phase that they are in, it could impact that. So in our press release we've broken all of this out. We've actually added a footnote to specifically call out Open Colleges so you can see that, and we will continue to do that to help you better understand those results going forward.

Greg Cappelli - *Apollo Education Group Inc - CEO*

The important side note there is, we're extremely pleased with their rapid growth and their taking of market share.

Phil Stiller - *Citigroup - Analyst*

Last question. The revenue per student, so you're saying apples-to-apples it was down about 6% in the fourth quarter. Then I think there was a comment that it would be flat by the end of the year. So just wondering what gets you to that point? Is that part of the pricing changes that you're implementing across the different programs?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

So in Q4 we were down 9%. I said about one-third of that was related to the classroom challenges we've talked about. In Q1, we expect it to be down about 8% and then improve to flat by year-end. There's a lot of things obviously that impact revenue per student, persistence, prices, discounts, stabilization of the classroom. So the negative 8% in Q1, we do expect to steadily improve by the end of the year and get to flat by Q4 of 2015.

Phil Stiller - *Citigroup - Analyst*

Is there a way to characterize the pricing changes that you're making at University of Phoenix? Obviously, some will go up, some will go down, but is there a net impact that we could frame?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

Absolutely. The blended price increase across all the programs is about 2%, 2.5%, but only about half of that will hit the financials in FY15. So about plus 1%, because we have a lot of students that are on tuition freezes from prior years, those types, as well as the timing of when we're implementing the increase which is the early part of November. So overall, for FY15, it will be about plus 1%.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Yes, and the differences in the process and the sophistication of looking at the value proposition to students in every market that Phoenix operates in, which is the approach they'll use going forward.

Phil Stiller - *Citigroup - Analyst*

Makes sense. Thanks, guys.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Thank you.

Operator

Your next question comes from Michael Tarkan from Compass Point. Your line is open.

Michael Tarkan - *Compass Point - Analyst*

Thanks. I know you guys don't break out specific enrollment and starts by segment anymore, but maybe just directionally, can you tell us how the bachelor's and master's channels are trending versus associate and certificate levels?

Greg Cappelli - *Apollo Education Group Inc - CEO*

Yes, Brian?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

As we expected, when we stopped reporting it several quarters ago, we had pretty significant growth in the bachelor's year over year, because we had -- when we changed the upper division to lower division pricing, we expected that to happen. And that declines at the associates level.

Overall, today, roughly about 60% of our students are bachelor students, and obviously more than that, seeming to be more than that is total undergrads including associates. But the trends played out as we expected when we stopped reporting it.

Michael Tarkan - *Compass Point - Analyst*

How do you expect that to materialize over the next couple years, and is the focus on the certificate programs, stackable certificates, is that also playing a role in revenue per student?

Greg Cappelli - *Apollo Education Group Inc - CEO*

Stackable certificates will be a growing component at the University, because it's an offering that both students and employers like, obviously for them to gain credibility along the way. So it's not taking two or four years to get that credibility for what they've learned. You can expect stackable certificates to continue to be a part of that growth going forward.

Michael Tarkan - *Compass Point - Analyst*

Is that having an effect on revenue per student, the growth in stackable certificates and that focus?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

No, most of the stackable certificates are embedded within degree programs that we've rolled out to-date, at least. So students enroll in the degree programs. They get a stackable certificate along the way. They're playing -- generally they last -- the courses last five to nine weeks, depending on what programs they're in. So they're generally -- we're getting within any given quarter, we're getting revenue at the same rate that we would if it was someone in the degree program, whether they were only looking to get the stackable certificate or continuing beyond that to get a full degree. Does that make sense?

Michael Tarkan - *Compass Point - Analyst*

Yes, and then on the tuition side, that 2.5%, is that -- how do I think about that from a domestic versus international standpoint? Is it across the board or how --?

Greg Cappelli - *Apollo Education Group Inc - CEO*

That's the average of how things average out. Remember, they're looking market to market, college by college on how they need to be priced as part of the value equation to the student. And that happens to be average of how it falls out at University of Phoenix, which is our domestic university.

Michael Tarkan - *Compass Point - Analyst*

Understood. Lastly, on the regulatory side, I don't think you touched on gainful employment, but any thoughts as to what the final rule will look like and when we may see it? I know the deadline is November 1st here.

Greg Cappelli - *Apollo Education Group Inc - CEO*

We've had great dialogue, I know along with some others, along the way. The new rule isn't out yet. We will obviously make sure that we're in compliance with the new rule when it's out. We'll make any adjustments if we need to, but we'll wait to comment before we see the final rule which shouldn't be too far away.

Michael Tarkan - *Compass Point - Analyst*

Thank you.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Thanks a lot.

Operator

Our final question comes from the line of Jerry Herman from Stifel. Your line is open.

Jerry Herman - *Stifel Nicolaus - Analyst*

Thanks. Good morning, everybody.

Greg Cappelli - *Apollo Education Group Inc - CEO*

Good morning.

Jerry Herman - *Stifel Nicolaus - Analyst*

Just wanted to take a look again at this RPS for the first quarter. Brian, you said it was down 8% in the first quarter. Should we think of the classroom changeover having a similar effect in the first quarter versus the fourth quarter, i.e. a third?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

It will actually be a little bit more than that, but not substantially more because of the timing of when the price changes were made in the prior year too, Jerry. I'd actually have to dig into that a little bit more. It will have the same impact, perhaps a little bit more.

Jerry Herman - *Stifel Nicolaus - Analyst*

Could you help us with some cash flow metrics, i.e. depreciation and amortization this year and stock comp estimates?

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

Stock comp should be roughly flat with the prior year; I believe it's about $45 million. In terms of depreciation, amortization, it should be down slightly. We have the impact obviously of additional amortization from our acquisitions, but the reduction of depreciation from the rolloff of other fixed assets.

Jerry Herman - *Stifel Nicolaus - Analyst*

And then just one final one for me, and I guess everybody in that case, based on what you said, it looks like revenue at the University of Phoenix will be down in the high single digits. I'm using all the framework you've given us.

And likewise, operating profit margin is down, what, 200 to 300 basis points. Does that sound fair? Again, I'm using -- go ahead.

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

Go ahead. What were you saying, Jerry?

Jerry Herman - *Stifel Nicolaus - Analyst*

I was going to say that's framing the 20% adjusted operating margin for this year and then still maintaining high teens for 2015.

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

So, with respect to University of Phoenix, on the top line, although the total enrollment will be flat, we'll have the impact of averaging enrollment year over year. So the average enrollment will be down year over year, even though we expect to stabilize as the year goes on.

On the profit side, as I mentioned in my margin comments, at University of Phoenix, they finished last year at about 21%, excluding the special items. We do expect them to maintain healthy margins, why they're investing in academics and instruction, and it should remain in the high teens.

Jerry Herman - *Stifel Nicolaus - Analyst*

Great. Thanks, guys. I appreciate it.

Brian Swartz - *Apollo Education Group Inc - SVP & CFO*

Thank you very much, Jerry.

Operator

We have no further questions in queue. I would now like to turn our call over to Greg Cappelli.

Greg Cappelli - *Apollo Education Group Inc - CEO*

I want to thank everybody for taking the time to dial in and listen to our earnings report. We're hard at work on the areas of differentiation, diversification, and certainly operating excellence at Apollo. We're excited about the future, and we look forward to talking to you and updating you on next quarter. Thank you so much. Take care.

Operator

This concludes today's conference call. You may now disconnect.