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APOL - Q1 2015 Apollo Education Group Inc Earnings Call

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## OVERVIEW:

Co. reported 1Q15 revenue of \$719m and net income from continuing operations of \$34m or \$0.31 per share. Expects FY15 net revenue to be \$2.74-2.80b.



## CORPORATE PARTICIPANTS

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

**Greg Cappelli** *Apollo Education Group Inc - CEO*

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

## CONFERENCE CALL PARTICIPANTS

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

**Paul Ginocchio** *Deutsche Bank - Analyst*

**Sara Gubins** *BofA Merrill Lynch - Analyst*

**Jerry Herman** *Stifel Nicolaus - Analyst*

**Henry Chien** *BMO Capital Markets - Analyst*

**Tom Bakas** *First Analysis Securities - Analyst*

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

**Nick Nikitas** *Robert W. Baird & Co. - Analyst*

**Phil Stiller** *Citigroup - Analyst*

## PRESENTATION

### Operator

Good morning, and welcome to the Apollo first quarter 2015 earnings conference call. At this time, all participants are in a listen-only mode. This conference call is being recorded today, January 8, 2015 and may not be reproduced in whole or in part without permission from the Company. There will be a replay of this call available through January 16 at [www.apollo.edu](http://www.apollo.edu). I would now like to turn the call over to Beth Coronelli, VP of Investor Relations. Ms. Coronelli, please go ahead.

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

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 first quarter of FY15 to the first quarter of FY14.

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 that 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 in 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 the reconciliation of the GAAP to non-GAAP measures. And with that, I'll turn the call over to Greg.



**Greg Cappelli - Apollo Education Group Inc - CEO**

Okay, thank you, Beth, and good morning, everyone. As we talk about our first quarter results, I'll share an update on the progress we're making on our strategy. I'll also provide clarity on the disruption related to the implementation of our new classroom, which has impacted enrollment, and obviously our business outlook for 2015.

I'll then provide a bit more color on the substantial progress we've made fixing the issues and turn the call over to Brian. As you know, our long-term strategic plan is based around these four objectives: Student success and career outcomes, employer solutions, diversification through Apollo Global and targeted growth initiatives, and operational excellence. First, student success and career outcomes.

Our long-term success is dependent on improving student retention, graduation, and relentlessly focusing on career outcomes at our schools worldwide. As part of this effort, University of Phoenix is making meaningful progress in implementing the college operating model. We are modernizing our curriculum and expanding our offerings. This includes modifying the sequence and structure of our entry level courses which now include gaming within these courses.

We're enhancing student support systems, increasing our full-time faculty where appropriate, and realigning our orientation program. We're addressing affordability through the Phoenix Scholarship Reward program to support students as they progress, which we believe can improve our completion rates over time. We're creating partnerships with organizations such as the Gates Foundation and others to better collaborate around improving student outcomes, and then share these results more broadly.

Now, in terms of Employer Solutions, we continue to build new and exciting relationships with Fortune 500 companies so that we can better align our programs to respond to their human capital needs. Our goal is to help employers better identify, develop, and retain their employees to ensure their future competitiveness.

Recently the Wall Street Journal reported that the number one ranked concern among CEOs at their 7th annual CEO Council was actually their ability to find employees with the key skills necessary to fill the jobs they need to grow their businesses. To that end, we were pleased to announce this quarter the launch of the Hilton Military Internship program. It's an exciting partnership with Hilton Worldwide and Goodwill Industries.

This collaboration allows participants to earn a certificate in hospitality and management from the University of Phoenix Business School. They participate in a six-month paid internship at Hilton Worldwide properties, and upon successful completion, be guaranteed the opportunity to interview for a full-time position. This program demonstrates the ability of industry, higher education, and non-profit services to come together and address real employment needs.

Although it's just getting underway, we're excited to be part of this collaborative effort. We believe that it can lead to additional opportunities with companies in other industries.

Diversification is also an important component of our strategy through Apollo Global and other targeted growth opportunities. Let me just touch on Apollo Global for a minute. It's a real bright spot and is meeting or exceeding expectations across all their institutions.

Global remains on target to achieve a \$400 million revenue run rate in 2015 and 20% annual growth over the next several years. We continue to believe Apollo Global can be a \$1 billion-plus business within three to five years through organic growth and potentially more than that including strategic acquisitions and partnerships along the way.

In December, we welcomed FAEL in Brazil to Apollo. FAEL is small today but is a high quality institution with exceptional management and fits well within our asset light business strategy internationally. FAEL currently offers blended post secondary programs in business, education and technology and has licenses to significantly expand its course offerings online. Brazil is a strong growth market and offers an exciting opportunity to expand our global learning network.

Other Apollo Global highlights include the addition of successful new relationships with key UK employers at BPP. Also at BPP, we're expanding the degree and professional qualification offerings into numerous countries globally, and are now actually recruiting international students into



their programs. There's been strong collaboration with our teams working together to help Milpark in South Africa develop its online programs with new short courses launching in April.

Regarding our 2014 acquisitions, Open Colleges Australia and Milpark are both exceeding all key operational and financial plans. And finally, at Bridge School of Management in India, the inaugural graduation ceremony for the first cohort of students was held in early November.

Now to talk about other areas of targeted growth. The University of Phoenix is doing this through their new college operating model by developing new relevant programs that connect more directly to careers.

Additionally, we're expanding the breadth and depth of our offerings to deliver more than just degree granting programs. We're addressing options to use our campuses more strategically through hybrid and career offerings, to name a few. We're evaluating opportunities to leverage our global presence to actually potentially recruit international students into the University of Phoenix. We're partnering with other institutions like Thurgood Marshall to provide our specific online courses to their students while enrolled at those institutions, and supporting our students in developing new offerings through our new exciting career platform called the Phoenix Career Guidance System.

We've also recently launched our professional development business. Although it's early, we've already created an IT boot camp and are exploring approaches to competency-based learning, and plan to offer additional non-degree granting programs in the second half of the year. We're also supporting emerging opportunities through Apollo Education Ventures which was recently launched to invest in innovative products, services and technologies.

The final component of our strategy is achieving operational excellence. We're streamlining and simplifying business processes and have better aligned the organization to increase efficiency and performance which we expect will lead to lasting and measurable results.

We're also getting better at identifying best practices and sharing them across our institutions globally in areas of retention, marketing and delivery. We continue to prudently manage our cost base and are focused on healthy margin expansion over the long term, which Brian will cover in more detail just shortly.

Last, but very importantly, let me provide some additional clarity around the near-term disruption from our new online classroom at the University of Phoenix. As I mentioned last quarter, the University recently completed and rolled out a new modernized classroom which was a massive undertaking.

This platform overall will be an enormous upgrade to students and faculty as it is significantly more advanced in functionality and learning capabilities. It will allow us to capture and analyze data around the science of learning which we can then use to further improve the student experience and outcomes.

Unfortunately, the conversion to a brand new platform was more challenging than we had originally anticipated, specifically given the size and scale of the implementation. That resulted in a greater than expected impact on retention. Again, Brian will address the financial impact on that in just a moment.

We're 100% committed to fixing all the issues relative to the new classroom as quickly as possible, and, in fact our teams have already made substantial progress. We're on track with our plan to aggressively address the technical issues related to the classroom and have also accelerated future enhancements.

These include ensuring the classroom is compatible with a broader range of browsers and other operating systems at all times, and that course content is more readily accessible when accessed through third party providers. We'll continue to improve usability with additional upgrades to provide enhancements throughout FY15, enhancing the ability to quickly provide the tools and training that our students, faculty and grad teams need to maximize the benefit from the new classroom and platform.

Beginning in January, we started to roll out a focused effort to help bring some of those students impacted by the classroom back to the University, and we'll provide an update next quarter on our progress in this important area. In closing, our management team is actively addressing our near-term challenges, as well as executing on our long-term strategy. We're excited about the future and our ability to expand across the globe over the next several years.

As we sit here today, there's over seven billion people in the world, less than 25% have a full time job, and within the next five years there's going to be a projected 250 million people vying to gain access to higher education. We're building our Company to help educate and connect these students to important careers throughout the world. Now I'll turn the call over to Brian.

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**Brian Swartz** - *Apollo Education Group Inc - SVP and 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 share our outlook for 2015. To quickly recap our consolidated first quarter results, revenue was \$719 million, operating income was \$61 million, and net income from continuing operations was \$34 million, or \$0.31 per share.

Excluding special items, operating income was \$83 million and net income from continuing operations was \$48 million, or \$0.44 per share.

Focusing first on the University of Phoenix. Revenue in the first quarter was \$593 million with operating income of \$94 million. There were 39,600 new student enrollments, down 5% year-over-year, a slight improvement from the fourth quarter.

As we expected, first quarter revenue per student was down 8.5% year-over-year. RPS was impacted by the increased number of students who withdrew or did not attend class in the quarter due to the disruption related to the new online classroom rollout.

As Greg discussed, we're on track with a plan to aggressively address the new classroom issues impacting students. We anticipate second quarter RPS to be down at about the same rate as the first quarter with more meaningful improvements beginning in the third quarter and moving towards flat by year-end.

Discounts in the first quarter were 11.5% as a percentage of revenue. They were higher year-over-year primarily due to the positive response we continue to experience from our Phoenix Scholarship Reward program, as well as additional programs to support students through the new classroom transition. We expect discounts to trend slightly higher in the second quarter with the second half returning close to the level experienced in the first quarter.

In the first quarter, the University of Phoenix operating margin was 15.8%, or 17.6% excluding special items. We expect the University of Phoenix full year 2015 margins, excluding special items, to be in line with the first quarter.

Moving on to Apollo Global. We are pleased with Apollo Global's operating performance as they continue to outperform the market in key global markets. First quarter revenue was \$115 million, an increase of 26% year-over-year. This growth was a result of acquisitions and organic growth slightly offset by foreign currency.

In the first quarter, the Apollo Global operating loss was \$5 million and adjusted operating income was \$7 million. Excluding Open Colleges high growth operating performance, which has an adverse impact on the near-term financial results, Apollo Global adjusted operating income was \$10 million representing a year-over-year improvement. We expect Apollo Global to be operating cash flow positive by the end of FY15.

Now turning to our operating expenses. In the first quarter, total operating expenses excluding special items decreased approximately \$10 million year-over-year, primarily as a result of lower enrollments, as well as a reduction in our marketing costs. Admissions advisory expense increased due to market adjustments in wages and the incorporation of the 2014 acquisitions. Bad debt expense as a percentage of revenue was 2.4%. As new enrollments continue to improve, we expect bad debt expense to be in the 2% to 3% range.



We have been diligently managing our cost base, and I will provide some commentary related to the full year in a moment. With respect to the consolidated balance sheet and cash flows, we continue to maintain a well capitalized balance sheet.

At quarter end, our cash and marketable securities were approximately \$864 million and our outstanding debt was \$63 million. Free cash flow for the quarter was down year-over-year in line with operating income. Additionally, we invested \$29 million for the acquisition of FAEL and \$18 million in share repurchases.

Now I'd like to spend a minute on our business outlook. Based on our current view, our financial outlook range for FY15 is as follows: Net revenue of \$2.74 billion to \$2.8 billion and operating income excluding special items of \$250 million to \$290 million. In the second quarter, we expect to record net revenue between \$580 million and \$595 million, and an operating loss, excluding special items, of \$25 million to [\$35 million] (corrected by company after the call).

Regarding the outlook, we have adjusted our revenue and operating profit ranges primarily as a result of the disruption due to the classroom conversion. The conversion has impacted enrollment by approximately 7,000 incremental students. As Greg mentioned, we have already addressed the most pressing classroom issues and have now implemented efforts to help students re-enroll.

The current outlook reflects a range of outcomes related to our ability to re-enroll these students. Given the majority of the remediation has recently been completed and the re-enrollment efforts have just begun it's too early to precisely determine how successful these efforts will be.

We do anticipate the University of Phoenix will end FY15 with roughly 220,000 students, plus or minus a few percentage points. With respect to new enrollments, similar to prior year, December is our seasonally softest month of the year and, therefore, the quarter is generally very backend loaded. Therefore, it's too early to comment further where we think we will end the second quarter.

Our goal remains to improve the rate of decline in new enrollments in FY15 versus FY14. Our outlook for 2015 reflects a reduction in our cost base of at least \$50 million as compared to 2014. We are focused on being as efficient and effective as possible while continuing to innovate and invest in our students for their long-term success.

Excluding the impact of special items, and the potential release of uncertain tax positions, we anticipate our tax rate to be about 43% for the full year 2015, with a second quarter benefit in the mid-30% range due to our expected operating loss and the mix of US and foreign earnings. As we discussed on our last conference call, we continue to expect our 2015 financial results to be weighted more towards the back half of the year. This is primarily due to the expected timing of the University of Phoenix recovery, along with the full year impact of our 2014 acquisitions and the anticipated timing of the growth in our professional development business.

We continue to expect third quarter to be our strongest quarter in 2015, with the second half of 2015 representing about 80% of our annual profit. Our goal is to address our operational challenges in 2015 and work towards getting back to our original plan of growing Apollo Education Group in 2016 and beyond. And with that, I'll turn the call over to the operator and we'll take your questions.

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## QUESTIONS AND ANSWERS

### Operator

Certainly.

(Operator Instructions)

Our first question comes from the line of Peter Appert with Piper Jaffray. Your line is open.

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

Thanks. So, Greg, can you give us anything more tangible or specific in terms of the steps being taken to address the problems, and maybe just what gives you confidence that you can get this thing fixed on a relatively near-term basis?

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**Greg Cappelli** - Apollo Education Group Inc - CEO

Thanks, Peter. We're going to get it fixed. The very structure of the University of Phoenix, continuous enrollment, 25,000-plus faculty, obviously, thousands of courses across nine colleges make developing anything new a pretty healthy challenge. And, as I said, they haven't had this kind of major platform upgrade in years to the online classroom.

We've been assured that the structure in the architecture and platform is solid from outside experts, but we've moved from a system that generally used centrally developed content, was completely controlled from the inside, to one that, frankly, is much more dynamic. It allows faculty and students to access and bring in all kinds of exciting new content from third parties and outside providers. And every time there's an update to a browser, a third party link, or other areas that the can change, our own system has to be capable of upgrading along way.

Basically in every course we offer, and those are the major fixes that have been being made, our teams thought they had it covered. We, obviously, learned some valuable lessons along the way, but we put every necessary asset on it. It's our number one area of focus, it has, obviously, caused disruption.

We're meeting the timeliness of the deadlines we've set to fix the issues at hand and expect better results going forward and we have a lot of data. We are not guessing in terms of how this emanated, where the problems are, what it did to NPS scores or student disruption. We have lots of communications going out to faculty and students about timelines and data so that they feel comfortable that this has been addressed, fixed and it won't be disrupted going forward.

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

Got it, okay. And I guess a concern might be that perhaps this is masking to some extent just the competitive issues or competitive pressures that might be exacerbating the start and enrollment performance. What do you think about that?

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**Greg Cappelli** - Apollo Education Group Inc - CEO

Well, look, I'm certainly pleased that the intakes are improved from prior quarters with significantly less spending, the overall environment, as I said before, will improve. It's choppy in this industry with some weeks better than others.

We continue to execute on our plan to differentiate our schools so that we can stand out. But we are not guessing, we have a lot of data as to what caused the disruption.

We know the timing of when students dropped out. Generally speaking, if it's more competitive type issues that happens very early on in courses, Peter, and these are students that have been pretty well into their courses where there's been disruption. So, again, we are using lots of data and analytics to track down the issues, to make sure we understand what the issues are, and we will certainly continue to do everything necessary to remediate that.

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

Got it. Thanks, Greg.

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Thank you.

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**Operator**

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

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**Paul Ginocchio** - *Deutsche Bank - Analyst*

Thanks for taking my question. Brian, could you just talk maybe about revenue per student, how much of that -- the 8.5% down -- how much of that is because of the internal systems issues? And also maybe talk about, it looks like some of your cost line items are up Q-on-Q. How much additional costs are going into fix this system so we can maybe see the underlying cost trends as well? Thank you.

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

Yes, so to answer the first part of that question, Paul, a significant portion of the 8.5% reduction is related to the persistency issues and retention issues in the classroom, so that is a significant portion of the 8.5% and might even be a majority on the RPS.

Your second question in terms of the cost to address and rectify these issues, we have been putting some capital in there. It's not significant or overly material, it's really a reprioritization of enhancements, and we also have put in a handful of million dollars kind of thing. Not a significant number in the context of the financials to accelerate as many of the fixes as we can.

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**Paul Ginocchio** - *Deutsche Bank - Analyst*

Okay, so if I look at -- G&A had been sort of trending down in the last quarter, it spiked back up, and in your instructional costs have kind of gone back, started going back up. So there's not a lot in there for that fix?

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

In the instructional costs that's where the fix would be.

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**Paul Ginocchio** - *Deutsche Bank - Analyst*

Okay.

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

But, again, there isn't a significant amount of incremental dollars solely related to the fix. So in general, with respect to those specific line items, overall, I would expect instructional to be down in line with the variable costs over the course of this year. G&A will be, should be down as we progress through the year.

It's down on a year-over-year basis, sequentially it is up a little bit. Some of that is just timing in terms of when certain expenses hit.

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Paul, there's investments going into the new college operating model as well that are important to the future.

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**Paul Ginocchio** - *Deutsche Bank - Analyst*

Okay, great. And just finally on marketing. You're still down year-on-year, but not as significantly as maybe last year. It's still going to be down year-on-year. Is this a good, is this first quarter a good number to look at for the year?

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

Yes, we will be down over the course of the year. You have to remember, this isn't solely University of Phoenix anymore. So some of it, a lot of our international operations, it includes marketing to support them, and they are in a growth mode, virtually all of those businesses.

So there's a little bit, at the University of Phoenix we do expect it to be down. We are also looking for opportunities to the extent it makes sense and the returns are successful to put additional money to work, as well, in the marketing and advertising area.

So overall the dollars will be down. I don't want to commit that they will be down in line with where they were Q1 year-over-year because we do look at that periodically and make decisions that are in the best interest of long term.

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**Paul Ginocchio** - *Deutsche Bank - Analyst*

And, Greg, finally, if I could ask one about Apollo Global, particularly Brazil. It looks like the Brazilian government changed the payment patterns, I think they did it overnight. Are you aware of that, and was that factored into your valuation when you looked at it? Just maybe explain what happened?

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Yes, Paul, this is despite any near-term changes in Brazil, we've been looking at this market for years. This was a very small amount of capital that we put into the market into a very high quality team that has developed a great platform and has access through a delivery model that we're very interested.

It's asset light that we think is going to help modernize the Brazilian system going forward in terms of higher education. So, yes, we did factor in pretty much everything that we looked at in terms of the diligence in going into Brazil. Obviously, this is a small acquisition to put us on the map in Brazil right now.

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**Paul Ginocchio** - *Deutsche Bank - Analyst*

Thank you.

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Thank you.

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**Operator**

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



**Sara Gubins** - BofA Merrill Lynch - Analyst

Thanks, good morning. First, do you think that any of the disruption is related to moving to the new college model, or is it really all related to the new learning management system?

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**Greg Cappelli** - Apollo Education Group Inc - CEO

Sara, I think there is some related to that, but we have pretty specific data to show the timelines. We have information from our technical assistance center of when things spiked up, what that information was about, why there was frustration.

So, yes, there's, of course, we had expected some from moving to another college operating model. We think it's the right thing to do for the long term and are excited about that from a competitive standpoint. On the quality of what I'm seeing there is very substantially improved and exciting, but the majority of this disruption we feel very confident is from the explanation of the classroom.

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**Sara Gubins** - BofA Merrill Lynch - Analyst

Okay, and then last quarter, you mentioned that you thought the macro environment was getting slightly better for University of Phoenix. It may be difficult to tease that out given the internal issues right now, but I'm wondering if you've got any updated views on that?

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**Greg Cappelli** - Apollo Education Group Inc - CEO

Yes, look. I think it's hard to say week to week what's happening with the external environment, as I said in my earlier comments. It's still choppy in the external environment, I think that's to be expected in our industry right now.

Obviously, there are signs in the economy that there are areas that are improving, so I would say there's some areas that are better and some areas we're still waiting for. It also varies by program and courses. We have some areas that I'm not going to go into a lot of detail on that are doing better than others as we continue to modernize.

But I'd say in general, we've had a period where our intakes have been improving. But, obviously, it's an industry that continues to evolve, and that's why we think that it's so important to be able to differentiate and to be able to listen and learn from our partners that are employing our graduates, to develop and deliver exactly what they need to hire our graduates so that we stand out.

We can sign important agreements like the ones I spoke to earlier in my more formal remarks because that's what's going to help organizations like ours drive through any kind of environment. If you're connecting thousands and thousands of people from education to careers where there's huge demand, I think you're going to have a very competitive offering and have the ability to stand out in this industry, even when there is some noise like there is now.

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**Sara Gubins** - BofA Merrill Lynch - Analyst

Great. And then on the regulatory front, with the final gainful employment regulations are out, do you think you'll have to make any meaningful changes to address the final rule?

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**Greg Cappelli** - Apollo Education Group Inc - CEO

We still don't have all the data that's necessary to conclude, to give you a conclusive answer there, but I feel good that we're in a good position and we'll make any adjustments we need to for gainful employment to make sure we're in compliance moving forward.

**Sara Gubins** - BofA Merrill Lynch - Analyst

Okay, and then just last question. Should we expect M&A to remain the main area of focus for cash after investing in the core business, or do you think we might see more share repurchase?

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

Yes, it could vary, Sara. We have been, I think, pretty diligent over the course of the last year, year and a half, trying to do a return of capital to shareholders on kind of a consistent basis. As you know, our top priority is investing in our existing institutions to support them and help them grow and differentiate, then, secondarily, investing in acquisition opportunities to move the enterprise value of the business, and then after that returning capital to shareholders.

So we've been pretty consistent, I think, in our philosophy there. It could move around. I don't want to make any commitments, but we definitely would like to put more money into acquisitions both internationally and domestically.

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**Greg Cappelli** - Apollo Education Group Inc - CEO

Only when they make sense on a long-term value creating sustained basis to our shareholders.

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**Sara Gubins** - BofA Merrill Lynch - Analyst

Okay, thank you.

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**Greg Cappelli** - Apollo Education Group Inc - CEO

Thank you.

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**Operator**

Your next question comes from the line of Jerry Herman with Stifel. Your line is open.

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**Jerry Herman** - Stifel Nicolaus - Analyst

Thanks, good morning, everybody.

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**Greg Cappelli** - Apollo Education Group Inc - CEO

Good morning.

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**Jerry Herman** - Stifel Nicolaus - Analyst

Greg, I was hoping you could get more granular on the student experience and exactly what the sticking point is, you referenced you have a lot of data. But at what point in the process were they prone to dropout or what did they experience that caused them to dropout?

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Yes, working adults who are working during the day, coming home and have busy evenings with families and kids in many cases, and get online to study in the evenings, well into the evening hours, need to have a seamless experience.

And if you are not, for some reason or another, able to access the content, the course work, the syllabus for any reason, it gets to be frustrating. And that's what some experienced and that's why we've had some issues, and that's what's being addressed and being fixed.

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**Jerry Herman** - *Stifel Nicolaus - Analyst*

Okay, great. And with regard to your second half guidance, the operating income guidance suggests that the second half of the year will be flat to up. Brian, you referenced some of the components of that, three in particular, the timing of the recovery at UOP acquisitions and the growth in the professional area. Can you talk to each of those and your confidence level in each of those turning more favorably in the second half of the year?

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

Yes, the acquisitions are performing very well. As we have said, the two acquisitions from FY14 are performing very, very well. Professional development is relatively small today, but we're excited about it and they are gaining some great traction. That team is doing a terrific job.

University of Phoenix, obviously, the largest component there. As Greg mentioned, many of the fixes have been put in place with respect to the classroom.

We're just now in the last week or two embarking on calling many of the students that were previously impacted to see if they are interested returning to school. We need to see how that plays out.

Our expectations are we will be very successful there, we are very focused on that. And we're also focused on putting the next versions of the platform in place so that the usability and the experience going forward for both the faculty and the students is very positive and improves from here.

So there's a range of outcomes right now, Jerry, as I mentioned in my comments. We're very focused on doing the right things for students and moving forward.

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**Jerry Herman** - *Stifel Nicolaus - Analyst*

And just real quick one, Brian. D&A and stock comp for the year? Give some guidance there.

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

Yes, stock comp should be pretty consistent with, I think, prior year was kind of in the mid-40 range, flat with FY14. D&A should be down a bit, although on the D side, the amortization side might be up, particularly as we finish some of the purchase accounting related to the recent Brazil acquisition.

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**Jerry Herman** - *Stifel Nicolaus - Analyst*

Great. Thanks, guys, I'll turn it over.

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Thank you.

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**Operator**

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

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**Henry Chien** - *BMO Capital Markets - Analyst*

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

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Hi, Henry.

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**Henry Chien** - *BMO Capital Markets - Analyst*

If you could elaborate a little bit more on the initiatives. I know you just mentioned that you would be reaching out to some of the students that dropped out. What other kind of things are you planning to do to sort of try to bring back those students?

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Yes, and let me just start by saying, Henry, that the most important thing is to get the issues fixed so that when students do re-enroll they are having a better experience. So that's been our primary focus. But, Brian, do you want to talk about some of them?

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

Henry, the links with the third party content providers that Greg mentioned, that has been fixed for the majority of the students participating in the courses, the actual number of courses that are out there. We will be releasing, as we mentioned, some additional enhancements, the next version of the platform later this spring that will significantly enhance the usability of the platform for both the faculty and the students to create a better experience.

We have rolled out some other items that Greg mentioned such as gamification. We did that actually in FY14 for the third course in a student sequence with us, their new introductory sequence, we've now rolled it out to the first and second course. We had very good success with that in FY14, so we feel good about that, as well.

So I think we'll reach out to the students, we'll provide some level of financial incentives if that makes sense for them to come back, as well, because they didn't have a good experience initially and we want to try to fix that for them and have them re-enroll if they are interested.

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

There's also been upgraded training in all areas to make sure that there's training around all these issues, also very good communications to keep people updated along the way.

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**Henry Chien** - *BMO Capital Markets - Analyst*

Got it, thanks for the color. And if I could do a quick one around, you mentioned you're hoping or aiming to achieve around 220,000 total enrollments. Does that factor in improvements in retention? And related to that, could you comment on -- I know it's early -- but any color around start trends that you're seeing so far this quarter? Thanks.

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

Yes, so the 220, it's 220,000 plus or minus a few percentage points, so call it plus or minus 6,000 students or so on either end of that, 6,000 to 7,000 students. The lower end would align pretty closely with the lower end of our revenue range, and the upper end would, obviously, align closer with the upper end.

In terms of new students, new student trends, I made the comments on Q2. Q2 is so seasonally back end loaded and we're just here at the beginning of January.

Even the next several weeks are really a critical part during the quarter, so it's very hard to comment on Q2. But we are very focused on focusing all of FY14 and have that trend improve in FY15, sorry in FY15 relative to FY14, so we will play the year out and we'll see how it goes, but we're certainly pleased with the performance in Q1.

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**Henry Chien** - *BMO Capital Markets - Analyst*

Great. Thanks so much.

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Thank you.

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**Operator**

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

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**Tom Bakas** - *First Analysis Securities - Analyst*

Hi, guys, this is Tom Bakas on for Corey. I was hoping you could just maybe talk a little bit about an update on the corporate partnership initiatives and how those conversations have evolved over time?

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Yes, thank you. I'm very pleased with those conversations and the number of relationships that we're building, and the level to which we're building them. We are gathering and learning a great deal of what is concerning employers, both large and small, around the country and in various parts of the world.

We are beginning to build to those specifications and those issues, and we think that we can more quickly and efficiently solve their problems than many others. So that is an important part of our future initiatives here at the Apollo Education Group, both domestically and internationally.

I'm pleased with where things stand right now. I think we will continue to get traction. I discussed, one of the big announcements, or a couple of them we had this past quarter, and we're looking to deliver more on that going forward.



**Tom Bakas** - *First Analysis Securities - Analyst*

Great, thanks. And then just quickly, could you just talk about the uptake of the certificate programs and the boot camps, any comments around that?

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

Yes, the boot camp specifically has performed very, very well. Our first cohort graduated a couple months ago and we were able to, they were successful in getting jobs. We are very pleased with the results of that and we're well into rolling into the second cohort and then expanding from there. So we're very pleased with where we're at there.

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**Tom Bakas** - *First Analysis Securities - Analyst*

Thanks, guys.

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Thank you.

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**Operator**

Your next question comes from the line of Trace Urdan with Wells Fargo. Your line is open.

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

Thanks very much. Brian, I'm going to start by calling you out a little bit on this discussion around the 220,000, you were kind enough to give us the over/under there. Obviously, that also includes some similar assumptions around starts and retention. Can you share some of that with us in terms of best case/worse case that you're looking at right now?

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

Yes, it's a good question Trace. I think, as we've said, our goal here, we've had several quarters behind us of improving rates of decline in that trend. It would be nice to see that continue.

Our real goal, it might be, there could be some quarterly fluctuations here or there. It's not going to be, it may not be exactly linear, but in general, we would expect certainly to end FY15 at a lower rate of decline than we did in FY14 which we've, obviously, done in Q1, which, as I mentioned pleased with. So I don't want to give more quantified specifics than that, but hopefully it gives you perspective in terms of what we're shooting for the rest of the year.

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

Okay, fair enough. And then, in terms of the new classroom issues, just so I understand this clearly, the drop in RPS is reflecting students scaling back on their course load, and, I guess, I gather also, reflecting some students dropping out altogether? Is it having any kind of an impact on new student starts from your perspective?



**Greg Cappelli** - *Apollo Education Group Inc - CEO*

It's hard to say exactly if it has had any impact on new students. You're talking about the classroom issue, but most of the impact, Trace, we believe has come with existing students who are actually pretty well into their courses.

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

In some cases, several classes or even a year plus into their course and their studies, Trace.

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

Okay, fair enough. And then, I wondered if -- you made some reference to goals of the work that you're doing in terms of employment outcomes and how important that is to the future of the business and sort of your strategy going forward, and now we've got gainful employment that's sort of coming on to the books. Have you taken any steps to improve your own kind of proprietary measures of job placement and starting salary, and can you speak to that a little bit? I know that it's not a requirement of your accreditation, but I'm wondering if you're looking to try to get better data as far as those numbers are concerned?

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Yes, that's a great question, Trace, and I'll tell you that, first of all, we worked very hard to put ourselves in a good position around gainful employment. We've had our own gainful employment system built in at the University of Phoenix.

We've tried to ensure that there's complete and total transparency on the front end that students understand the cost, where the jobs are, how much of their paycheck is going to come out in those specific jobs so that they can choose a course and a program that feels right for them in terms of percentages that they are going to have to use their beginning paychecks to pay back those loans. So that's been very important to us on the front end.

The other statistics that you bring up, yes, you're right. There's not requirements, but we've been pretty transparent in saying that whether it's the University of Phoenix or other institutions around the globe that we run and operate, it is critical for us to make sure that we are building to a future that takes the appropriate levels of education, whether the degree or non-degree or both in some cases, make sure it's delivered in a modernized fashion.

Make sure that employers have been brought into the process in the development of that content and those programs because they are frustrated with the college system here and abroad. They feel like nobody is listening to them.

We are listening to them. And if we deliver on that and we make sure that we can demonstrate outcomes, not just you finish the program or you've graduated, but you have the skills, you have gained the skills necessary to do these jobs in a career that you want. That is what they're looking for.

We know that there's a skills gap of millions of millions of people here and even larger in many international countries. So if we connect those two together, which we're determined to do, that's where I think the future of this sector is going. That's what we've been working so hard to invest in and to deliver on.

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

Okay, thanks, Greg.

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Thank you.

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**Operator**

Your next question comes from the line of Nick Nikitas with Robert W. Baird. Your line is open.

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**Nick Nikitas** - *Robert W. Baird & Co. - Analyst*

Yes, good morning. Just looking at the persistence decline and realizing you guys stopped reporting enrollment by degree level, but any commentary you can provide or material differences in retention by degree levels?

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

That's a good question. I would say no, there's not.

We don't have information to suggest wide fluctuations between the degree areas at this point. There's always going to be some movement in any given year or any given quarter, but nothing that stands out materially that I can share with you at this point.

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**Nick Nikitas** - *Robert W. Baird & Co. - Analyst*

Okay. And then, just switching gears to Global. On a positive note, it sounds like continued solid results there. Outside of Open Colleges, where are you guys seeing the strongest growth?

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

In all areas to be honest with you. The most mature market is certainly in the UK, but even in a market that has had declines they're gaining market share in all areas.

And, again, one of the things that excites me about the US is we have learned some significant things from different parts of the world where they've already built college-based systems that are delivering market share gains in their areas like we hope to do in the US throughout our global platform. So pretty much all the areas within Apollo Global are now growing. There are some faster than others. I think Australia is probably our fastest growing right now, but it's pretty exciting.

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**Nick Nikitas** - *Robert W. Baird & Co. - Analyst*

Okay, thanks.

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**Greg Cappelli** - *Apollo Education Group Inc - CEO*

Thank you.

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**Operator**

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



**Phil Stiller** - Citigroup - Analyst

Hi, guys, sorry, I joined the call late, so I apologize if my questions were answered. But I guess last quarter you talked about the revenue per student changes inflecting towards the back half of the year based on some pricing adjustments, and then in the Q today there was some reference to changes made in the first quarter. I just want to make sure there were no incremental changes from what we discussed last quarter, and is the expectation still for kind of a positive exit rate for this year?

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

So the answer to your first question is there were no, nothing new that we didn't talk about in the October call. It just happened during quarter, so you saw it again in the 10-Q which complies with the disclosure requirements and consistency in MD&A. So nothing incremental from what we talked about last quarter, Phil, on the pricing side.

The second question, I'm sorry, what was it again?

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**Phil Stiller** - Citigroup - Analyst

I guess last quarter you talked about the exit rate being positive year-over-year in the fourth quarter?

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

Yes, so in my prepared remarks I'd indicated that the second quarter rate of decline in RPS should be consistent with Q1 which was down 8.5%, and we would see improvements in the back half getting close towards zero at the end of the year.

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**Phil Stiller** - Citigroup - Analyst

Okay. And then, the second question is just on the admissions advisory expense was up quite a bit year-over-year. I don't know if you gave some color on what was driving that?

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

Yes, this starts to get into the mix between domestic international operations principally. So what you're starting to see is that our international operations, which as I mentioned earlier in the answer to one of the other questions, are growing, so areas like marketing and admissions advisory, and particularly academics and instructional, those are increasing. Obviously, EOP is still the majority of our Company today, so much of the growth there, the admissions advisory, much of that growth is for those international operations.

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**Phil Stiller** - Citigroup - Analyst

Okay, great. Thanks guys.

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**Greg Cappelli** - Apollo Education Group Inc - CEO

Thank you.

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**Operator**

Your next question comes from the line of Trace Urdan with Wells Fargo. Your line is open.

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

Hey, thanks. Greg, you talked about, and I know this came up last quarter, as well, that as a function of the new university structure, you're seeing some additional investment spending, some requests from the newly created divisions for things that they want to do. I get a lot of questions from investors about the sort of the changing dynamic on the expense side and the fact that there is more spending this year. Is it possible without giving up anything too proprietary that you could sort of give us some examples of the kinds of things that you're spending money on now that you have this new organization and sort of what some of these investments involve?

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**Greg Cappelli** - Apollo Education Group Inc - CEO

Trace, it's a very good question. I don't want to go into a lot of detail there. I will tell you that the University has brought in some extraordinary talent -- by the way, starting with Tim Slottow, the President -- and that is beginning to show up in ways where they're asking for investments and capital into specific areas of the schools where they now have better information than ever about their industry, the size, the competitive nature, what businesses and employers are looking for, connecting that content to careers, exactly and specifically how they think they can take market share back, which the University has lost over the years. And not just under one umbrella, by school.

And that excites me because it tells me that when you look at any of the individual college areas, there is a lot of demand in this country and abroad for people with the right skills, if they are connected to careers and they can do those jobs and they can do them well. So whether it's areas of investments into new modernized content, into gaming, into adaptive learning or math, there are too many categories to discuss on this call.

But I'm very excited by the fact that they've identified those areas and we can begin to intelligently invest in them knowing that we will only do that if we're going to get a return off of it to make us more competitive, and I believe those things are going to start to show up over the next year.

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

Great, thank you.

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**Greg Cappelli** - Apollo Education Group Inc - CEO

We'll get into some more detail too as we move forward and some of them become more mature.

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

Fair enough.

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**Greg Cappelli** - Apollo Education Group Inc - CEO

Thanks, Trace.

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**Operator**

There are no further questions at this time. I'll turn the call back over to Greg Cappelli for closing remarks.

**Greg Cappelli** - *Apollo Education Group Inc - CEO*

All right, thank you, everybody, for joining us early this morning. I can assure you that we are very, very focused on the tasks at hand. We remain very excited about the future, both domestically and internationally. And thank you for bearing with us and we will keep you updated along the way. Take care.

**Operator**

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

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