Universal Technical Institute

Fiscal Q1 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Troy Anderson - *Chief Financial Officer*

Jody Kent - *Vice President of Communications and Public Affairs*

PRESENTATION

Operator
Hello and welcome to the Universal Technical Institute Fiscal First Quarter 2021 Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*", then "1" on your touchtone phone, to withdraw your question, please press "*", then "2." Please note, today's event is being recorded.

I now will turn the conference over to Jody Kent. Ms. Kent, please go ahead.

Jody Kent
Before we begin, we want to remind everyone that today's call will contain forward-looking statements within the meaning of the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995.

Please carefully review today's press release for additional information and important disclosures about forward-looking statements. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes and circumstances that are difficult to predict, and many of which are outside of our control.

Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. As a reminder, the section entitled Forward-Looking Statements in today's press release also applies to everything discussed during this conference call.

During today's call, we will refer to adjusted operating income or loss, adjusted EBITDA, and adjusted free cash flow, which are non-GAAP financial measures. Adjusted operating income or loss is income or loss from operations adjusted for items that affect trends and underlying performance from year-to-year and are not considered normal recurring cash operating expenses.

Adjusted EBITDA is net income or loss before interest expense, interest income, income taxes, depreciation, amortization, and adjusted for items not considered as part of the company's normal recurring operations.

Adjusted free cash flow is net cash provided by or used in operating activities fewer capital expenditures, adjusted for items not considered as part of the company's normal recurring operations. Management internally uses adjusted operating income and loss, adjusted EBITDA and adjusted free cash flow as performance measures and those figures will be discussed on today's call.

As a reminder, we have provided reconciliations of these non-GAAP measurements to the most directly comparable GAAP financial measurements in today's press release, and we encourage you to carefully review those reconciliations.

Starting with the third quarter of fiscal 2019 and through fiscal 2020, we have reported operating metrics such as student applications and starts, excluding our Norwood, Massachusetts campus. As we have shared previously, Norwood stopped accepting new student applications in the second quarter of fiscal 2019 and the campus was fully closed in July 2020. So, we believe it is important to exclude its impact.

It is now my pleasure to turn the call over to our CEO, Jerome Grant.

Jerome Grant
Thank you, Jody. Good afternoon everyone and thank you all for joining us today. To begin, I would like to once again applaud the tremendous efforts of our staff and students during the quarter. We were able to make progress on a number of strategic initiatives while keeping all of our campuses fully operational, starting 1927 students, a nearly 21% increase over Q1 2020 and graduating 1510 students, despite a significant spike in COVID-19 cases throughout the country.

As with most post–secondary institutions around the world, we did experience some temporary effects related to the pandemic this past quarter. Troy will share more of our metrics and full financial results with you a bit later in the call. You may recall from our last update that in addition to keeping UTI open and moving forward in this challenging environment our focus is in three key areas that we believe will be driving the evolution of UTI.

Student outcomes, innovation, and our long term growth in diversification strategy. Student outcomes continue to be the foundation or a platform on which UTI is built. UTI's past and future is inexorably tied in this measure, because we only succeed when our students succeed. Ensuring the highest level of outcomes is a team effort, the foundation of that team are world class instructors, support staff, and curriculum design specialists. Additionally, one of UTI's most unique and critical outcomes-oriented value propositions is our relationship with our employment, military and OEM partners.

This quarter we continue to build those partnerships to maximize the success rate of our students. One excellent example is the announcement we made in November of our collaborative new hands-on training program at Fort Bliss in El Paso, Texas. This innovative three-way partnership between UTI, Premier Truck Group, a wholly owned subsidiary of Penske Automotive Group, and the U.S. Army is the first on base diesel commercial vehicle technician career skills program in the history of the U.S. Army.

A second example of our partnership drives outcomes is the announcement we made in December featuring the expansion of our exclusive relationship with Daimler Trucks of North America or DTNA, the number one heavy duty truck manufacture in North America. We are thrilled to be expanding DTNA's finished first program to our Orlando campus in the summer of 2021. The program trains students to maintain, diagnose and repair DTNA's industry leading brands including freight liner, Western Star, and Detroit. Orlando will become the third UTI campus to be offering this exclusive program, joining our campuses in Avondale, Arizona and Lisle, Illinois. These partnerships underscore that UTI's education model has a long track record of bestowing students the key skills that leading employers nationwide require.

A great example of how this all comes together for both students and industry is Kevin Smith. Kevin graduated from the Auto Diesel and Ford Program at our Houston campus in 2004, and he's built a successful 17-year career. He tells us that UTI helped create the foundation that his success has been built upon, giving him work-ready skills needed to succeed as a Level 1 technician and then grow over time to become General Manager at Rush Truck Center in Haines City, Florida, which is just outside of Orlando. Kevin now regularly interviews prospective technicians from UTI's Orlando campus for positions at his location. He does so because he says they receive the state-of-the-industry training needed to immediately hit the ground running, and because throughout their UTI education, they've been held to a high level of professionalism, which translates to more successful and reliable employees.

In the past few years, Kevin has hired many technicians from UTI in Orlando and their demand for technicians continues to be strong. Kevin also told us that UTI's shift to a blended learning model is a benefit to both students and employers, because it aligns more seamlessly to the continuous learning technicians already do on the job. He said it's another step that UTI takes to better prepare students for the real world. Kevin's story embodies the lifelong value of our strategic partnership, and also sheds light on a key area where we are innovating to better prepare our students for today's job market. That area is our blended learning approach.

To continue to build on both our history and promise for successful outcomes for our students, we must challenge ourselves to innovate, to better align our platforms, our model, and our overall offerings with our market. I think it's important to take a step back here and reminded everyone that our blended learning model was not nearly developed in response to COVID-19. More limited iterations of this model were developed years ago and had already rolled out in stages across a number of our campuses.

The onset of the global pandemic last year necessitated a rapid expansion to a full-blended learning model across our system in the first half of 2020. We're seeing the advantages of blended learning come to fruition as time progresses and are confident its value will live on to serve as yet another durable advantage for UTI. Thus, we will continue to invest appropriately in content, technology, and people to fuel its growth. It's also important to note that blended learning is much different than the purely online learning approach used around much of the U.S. right now.

The skills that students need require substantial hands-on instruction and our blended learning approach allows our students to complete the classroom portion of the curriculum online, while still receiving all of their hands-on labs in person. None of that's virtual. So no crucial hands-on training is omitted. Not only does the approach offer students more flexibility and convenience, it also enables us to reduce, repurpose, and consolidate previously used classroom space to enhance our overall efficiency.

For example, we recently announced the purchase of our Avondale, Arizona campus and the relocation of our motorcycle programs to Avondale from their current location in North Phoenix. This move comes with substantial financial benefits to UTI and its shareholders and was facilitated to the efficiencies realized through our blended learning approach. Kevin from Rush Trucking is not alone in recognition and praise of our new innovative learning model.

Numerous employer partners have also expressed immense gratitude for the computer skills we are now providing to our graduates. The reality is that while the majority of jobs for which we train are centered around hands-on skills, digital literacy is also essential in these fields. We're confident that our blended learning model will continue to evolve to better serve the needs of our students and employment partners alike, while unlocking further efficiency opportunities that just were not feasible under our traditional operating model.

A second area of innovation I'd like to highlight is with our marketing approach, where throughout the last several months, we've strategically directed time and capital to further drive the efficiency and effectiveness of our campaigns. While we continue to support our national brand appeal, we've begun to allocate more resources to potential students living near our campuses. In the current environment of high unemployment, restrictive travel, and health and safety modifications, this emphasis makes sense and is supportive of our students and their families.

As a management team, we felt that it was our responsibility to ensure that the local communities in which we operate across this country fully understood and maximized the benefits of what we had to offer. This could not be fully realized with a predominantly national approach to advertising. You see, it's really a win-win opportunity. Less costly for students and their families in terms of relocation and living expenses, increased flexibility to complete their education utilizing our blended learning model while working at the same time, more cost effective for us, and enabling our students to spend more time with their families. As stakeholders in our communities, these are critical opportunities in students that we must do our best to connect with and serve.

As we mentioned last quarter, we've altered our messaging to both acknowledge the sharp increase in unemployment of the 16 to 24-year old population in the U.S., and more concretely highlight the incredible robust job opportunities in prospective student local markets. Many of our advertisements now include information on the number of open jobs, program length, and starting salaries within the campus communities, which are all backed by concrete and publicly available data. We want people to know from the start what they can achieve by enrolling in our programs and exactly how long it takes to reach their goals. We're seeing the impact of our more locally focused advertising and sharpened messaging through an impressive increase in lead flow, heightened conversion rates, and improved start rates, all which are effectively improving the return on our marketing investment.

Finally, before I turn the call over to Troy, I'd like to provide a brief update on our growth and diversification efforts. And how we're moving forward to shape the future of UTI. Program expansion serves as one of the tenets of our plan. And it should be underscored that although we're looking at organic and inorganic means to bring more programs to UTI, substantial opportunity remains to grow through the channels in which we currently operate. To that end, we plan to continue to expand our current offerings, such as welding technology, across the footprint.

Just last week, we announced the February launch of our sixth welding technology program in Lisle, Illinois along with the plan launch in Bloomfield, New Jersey later this year. We also announced our intention to bring two more welding programs to our campuses in 2022, which will bring the total to nine campuses and represent yearly complete roll-out of this highly successful program. You see, we want to be able to offer the best solution possible for the many people who want a post secondary education but feel that a typical college degree just isn't right for them.

Our teams also continue to make substantial progress in a number of other strategic Initiatives supporting our growth and diversification plan as well. We have worked diligently in collaboration with the UTI Board of Directors to solidify the plan of how our capital will be deployed and when. Although we have no announcements on this front today, we expect that we'll be able to share more soon.

With that said, I'd now like to turn the call over to Troy for a discussion of our key accomplishments, operating and financial metrics, as well as guidance for the balance of the year, after which, I'll return to provide some closing thoughts and open the call up for questions. Troy?

Troy Anderson
Thank you, Jerome. As Jerome outlined, we experienced growth across a number of our key performance indicators during the fiscal first quarter and we are pleased with our operating performance in light of the broader macro environment. We started 1,927 students in the first quarter, an increase of 20.9% over the prior year pre-COVID first quarter with strength in starts across all three channels. Scheduled starts increased 18.3% year-over-year in the quarter. As of the most recent data, students scheduled to start in the second quarter is currently pacing at an even stronger clip from a year-over-year perspective.

Show rate improved 110 basis points year-over-year in the quarter. And notably, we achieved the fourth straight year of first quarter year-over-year show rate improvement. We saw continued strength in media-driven inquiries with an 11.5% year-over-year increase in the quarter. As we commented in our last call, we saw a slowdown in media-driven inquiries in October leading up to the election, and that we reduced our advertising spending during that timeframe given the market dynamics and diminishing returns.

Inquiries quickly bounced back to strong double-digit year-over-year growth in November and December, which also continued in January. Our media inquiry conversion rate, or the rate that we convert inquiries into enrollments, was higher year-over-year throughout the quarter, and this also continued through January.

In summary, the front-end metrics for our business clearly demonstrate that momentum is building. On the revenue side, we continue to see impacts from the COVID-19 pandemic on our students and their families, thus affecting their ability to fully engage in this environment. This is reflected in our revenue for the first quarter, which decreased 12.7% to $76.1 million compared to $87.2 million in the prior year period. This includes a $2 million net revenue deferral for students who are still completing makeup labs, which is down from $6 million at the end of last quarter and $11 million two quarters ago. The decrease in the revenue deferral is a result of the continued improvement in the number of students fully caught up on their labs, which is now 84% and the decrease in online-only students to less than 1%. We saw a 1.8% year-over-year increase in average students in the quarter, which is a positive sign for student engagement and overall revenue growth.

Revenue per student reflects our normal sequential seasonal decrease due to our annual holiday closure in December. We would like to have seen revenue per student a bit higher in the quarter, but the COVID spike put pressure on leaves of absence for LOAs in late November and throughout December and also contributed to higher withdrawals in the quarter.

Additionally, we continue working with a subset of students who are experiencing higher course retake and fail rates, particularly those who enrolled pre-COVID. We have multiple initiatives underway to further assist students and increase their likelihood for a successful outcome, including mentoring programs, increased lab days, conversion to a new learning management system with improved student experience and performance measurement capabilities, and a streamlined re-enrollment process for students who previously withdrew and desire to re-engage and complete the program.

We have seen improvements as the current quarter has progressed. As at the last course rotation LOAs were more consistent with our expectations. And overall, we are seeing better student persistence in engagement as those initiatives are rolled out. We are confident that we will see ongoing improvement to the variables within our control as the year progresses. We were able to offset the majority of the revenue impact to the quarter through diligent cost control with operating expenses for the quarter decreasing $7.6 million, or 9.2% versus the prior year, to $75.3 million. The decrease was across both education services and facilities and SG&A and was primarily attributable to productivity improvements resulting in lower headcount and related compensation and benefit expenses, along with lower occupancy expenses, or real estate rationalization efforts and lower advertising and travel expenses.

Headcount at the end of the quarter was 1,590 down approximately 50 from the prior year period. Operating Income and adjusted operating income for the quarter were $0.8 million, compared to $4.3 million and $6.5 million in the prior year quarter respectively. Adjusted EBITDA was $4.3 million for the quarter as compared to $10.1 million in the prior year period. For our adjusted profitability results, we have no adjustments in the current quarter and for the prior year reflects adjustments for our CEO transition, and the Norwood, Massachusetts campus closure.

Net income for the quarter was $1.1 million compared to $4.7 million in the prior year comparable period. Basic and fully diluted loss per share were both $0.01. Total shares outstanding as of the end of the quarter were 32,685,000, slightly higher than the prior quarter. Our balance sheet remains strong and provides a solid foundation as we continue to navigate the pandemic and pursue our growth and diversification strategies. We ended the quarter with available liquidity of $72.1 million, which includes $44.2 million of cash and cash equivalents and $27.9 million of short-term held in maturity securities. This is reflective of the $45.2 million net cash outlay for the purchase of our Avondale campus in late December.

In the quarter, we generated operating cash flow of $7.8 million and adjusted free cash flow of $5.8 million. Adjusted free cash flow reflects an adjustment for the Avondale campus purchased in the current year, and for our CEO transition and Norwood campus closure in the prior year.

Just a quick recap regarding Avondale. As we disclosed, we expect to complete the consolidation of our Phoenix MMI campus into Avondale by the end of fiscal 2022 and estimate a total annualized adjusted EBITDA benefit of approximately $6.5 million as a result of the purchase and consolidation. We will see the initial benefit from the purchase transaction on occupancy expense in the second quarter. Post consolidation, Avondale will be our largest campus in terms of size, number of students, and program diversity.

We also made further progress on our previously announced Orlando campus consolidation and have finalized leases to secure the necessary space. This consolidation will bring all of our Orlando operations into one site and reduce the overall footprint by approximately 75,000 square feet. As a result, we estimate an annual adjusted EBITDA benefit of approximately $1.9 million, beginning in fiscal 2022.

Our strong balance sheet and ability to consistently generate cash from our core operations will support our strategic initiatives as we move forward. As Jerome mentioned, we're making good progress on this front and we expect to release more details in the coming months.

I'd now like to turn briefly to our guidance for fiscal 2021, before handing the call back to Jerome. Despite the additional pressure we saw on revenue this quarter from COVID, we are pleased with the progress we are making across our business by the strength of the various leading indicators mentioned in my earlier comments, and by the continued progress of our students and success of our graduates. Given this, we are maintaining our full-year fiscal 2021 guidance. This assumes the current environment in relation to the pandemic does not worsen, and thus we see steady performance improvement throughout the remainder of the year.

Briefly recapping the guidance for the full fiscal year, we expect year-over-year students start in revenue growth of 10% to 15%, net income of $14 to $19 million, adjusted EBITDA of $30 to $35 million, and adjusted free cash flow of $20 to $25 million, which assumes capital expenditures of $15 to $20 million, excluding the Avondale campus purchase made in the first quarter. With that, I would like to thank the entire UTI team for their efforts during the quarter.

Now, I'll turn the call back over to Jerome for closing remarks, before he opens up the call for questions, Jerome?

Jerome Grant
Thanks Troy. We continue to feel optimistic about the remainder of the year and the future for UTI and feel the short-term revenue pressures, primarily attributable to the current health crisis in America, are just minor bumps in the road on our path to success. We are seeing extremely strong demand at the front end of our lead funnel that we are more efficiently converting to scheduled starts and starts than we ever have. The job market for our graduates has remained resilient and is expected to see further expansion over the coming months and years. We're confident that our blended learning is the premier way to be educated within our field, and we're seeing tangible results from our ambitious marketing strategy.

Our financial position remains rock solid, which offers us optionality moving forward. Our team has a clear vision of both how UTI must execute on the fundamentals in 2021, while aggressively pursuing the growth and diversification path to achieving our fullest potential in the future.

I'd now like to turn the call over the operator for Q&A.

QUESTION AND ANSWER

Operator
Yes, thank you. We will now begin the question-and-answer session. To ask a question, you may press "*", then "1" on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press "*", then "2." At this time, we'll pause momentarily to assemble the roster.

And the first question comes from Austin Moldow with Canaccord.

Austin Moldow
Thanks very much for taking my questions. You mentioned some negative impacts from COVID, but do you believe you're experiencing any improvements in demand from recessionary trends and high unemployment yet?

Troy Anderson
Right, yes. Hi, Austin, this is Troy. Thanks for the question. We've been talking about the front-end strength on our inquiry flow for a few quarters now. We were 25% both in the last two quarters of fiscal '20, 11.5%, this quarter, and that includes a down month with October because of the election. So, we're seeing demand, clearly the unemployment rate in our primary demographic is very elevated even with some of the more recent improvements. So, it's, you know, again, always hard to call, but clearly the enrollments this quarter and the starts this

quarter were very strong. We see, as I commented on, we see strength in our Q2 enrollments, which are actually pacing stronger currently, based on current data than the Q1 enrollments and we continue to build the book for the back half of the year. So, we're encouraged by the front-end strength we see and we'll continue to do everything we can to maximize the opportunity and support our prospective students.

Austin Moldow
Great, thanks for that. Can you go into a little more depth on the advertising environment and I think you mentioned something about localizing ad messages? Can you just kind of go through that initiative?

Jerome Grant
Sure, Austin, thanks for calling in by the way. It's Jerome. So, a couple of things. Number one, in terms of the environment as a whole, one of the alterations we've made is to start to more localize our advertising. Most of UTI's advertising over the last number of years has been sort of national brand awareness advertisement that would bring someone to inquire about what they may want to do. We're getting far more pointed in our advertising right now. You'll see social media ads in the New York area saying there are 66,000 open jobs and in 51 weeks you'd be certified to be able to apply for one of those.

And we really believe that a little deeper mining in our local areas, bring some of the results we've seen in the first quarter, you know, a beginning of a shift to more local enrollments, which convert at a higher rate and actually show at a higher rate. And then also, a bit of a compressed time frame between enrollment and start, which sort of leads to your first question that you had to Troy, which is the compressed time frame, which usually is about four months between an inquiry and a start is really indicative that you've got people who don't have jobs and are ready to get re-trained right away. So, a lot of that messaging is much more focused on being there for people. And then, a significant amount of the focus is really reaching out to people who are local, therefore, they can decide quickly and start school right away.

Austin Moldow
Great. That's really helpful, and if I could sneak in one quick one, you mentioned computer skills. Any thought around leaning further into that kind of computer science or coding short-term type boot camp course work?

Jerome Grant
We have not really gone deep into the notion of coding and boot camp, what we have been doing is we have been looking much more deeply into how the evolution of digital literacy starts to apply to our ongoing continuing education, the B2B markets, as well as, the transition from combustion to hybrid to EV. We think that those digital skills are going to become much more at a premium, and therefore, we're leaning in on them.

Austin Moldow
Great, thanks very much.

Jerome Grant
Sure.

Troy Anderson
Thanks Austin.

Operator
Thank you. And the next question comes from Raj Sharma with B. Riley.

Raj Sharma
Hello, good afternoon. Thank you for taking the question. So, I just wanted to understand, in the last call, the regular…the students on regular course work were 80% and that has improved to 84% now. What was the differential? So, the number of…but also the number of graduates around I think Jerome mentioned were 1500. What was the normal number that you would have expected during this quarter? In other words, is the delta are less students graduating, not enough progressing that has caused the shortfall in the revenue? Just trying to understand that better as a piece of the course completion.

Troy Anderson
Yes, sure. Thanks, thanks Raj. I appreciate the question. A few comments, this is Troy. I'll make a few comments. First as you look at that Q1, our Q4 to Q1, we always had a seasonal effect of this holiday closure, we're closed a week in the latter part of December. And so, that always…we always have a lower revenue per student in Q1 than we do in Q4, and our revenue was roughly flat, even though typically we have higher students in Q1 than Q4. So, everything as you look at this last Q4 to this Q1 looks very similar to exactly what happened last year, which was a pre-COVID environment. What didn't happen, which we were counting on or expecting to some degree was some improvement as we talked about in the last call, as we brought more students back in getting caught up on their labs and things of that nature. Because we saw some spike activity with the LOAs, with some withdraws, with some retakes that basically counter set against the improvements we were trying to make and we had progress making leading into the last call.

So, we see those improvements happening and we can point very specifically to clearly the effect that happened really the last five-to-six weeks of the quarter. And then, we also see the first five weeks here of this quarter, a reversal. And so, that's really the long and short of it. Didn't get quite the lift we were hoping for, but we didn't go backwards, is really how we're looking forward, and we see that improvement? Again the front-end strength was tremendous. We see that strength continuing into Q2, and we're going to continue working on everything that we can within our control to keep driving the performance improvements, which we have confidence we can achieve.

Raj Sharma
Any sort of…was it regional specific at all these delays and the reticence in wanting to complete the coursework?

Troy Anderson
There are there are definite variances across the campus foot brand. I mean, we have a, and a campus doesn't turn overnight, right? If a campus was --has a higher LOA rate than the other campuses, it takes longer to bounce back, so we definitely have some regional variation off the top of my head. I know there's, one or two of our California schools that have been behind throughout, we've seen Arizona, some of the hotspots where we've seen some of the most pressure, but it's not 100% consistent. So, there's some puts and takes around there, keeping in mind again we have a younger demographic in our schools than broadly speaking is most affected by COVID. So, again, I wouldn't point it to any one specific thing. I think, it's just what you see out in the macro headlines. We saw some effects from that, but we also see that the actions that we've been taking will continue to drive improvement.

Raj Sharma
So, just one last question on that. I see that you reiterated the guidance, obviously you guys are doing well on the starts, and the interest in the continuing, the shore rates are improving. But the revenue…the yearly revenue guidance would have to be met only if there was obviously a pickup in the pace of revenue…of this revenue recognition. So, are you expecting this to be the back half? When are you expected…when do you expect the pace of completion of coursework caught up entirely?

Troy Anderson
Yes, it is the, the make-ups are a piece of it, right? Having a more normalized LOA rate. Having a more normalized retake rate. So, all of those things contribute. And so, we do expect to see improvements that, that guidance contemplates improvements throughout the year. Certainly, it is back and loaded, it was backend loaded when we gave it, it's a little more backend loaded now. It is a range so, I want to emphasize it's a range, and we're comfortable with the range, with the initiatives we have in place. The front-end strength that we see and the expected improvements throughout the year.

Raj Sharma
Okay. Great. I'll take this offline. Thank you so much.

Troy Anderson
Great, thanks Raj.

Jerome Grant
Thanks Raj.

Operator
Thank you. And the next question comes from Steven Frankel with Colliers.

Steven Frankel
Good afternoon. I wonder, if you could just dig in a little bit on exactly what the LOA number was? What the…and what happened to that sequentially and where do you think that goes this quarter?

Jerome Grant
Yes, sure. We when we talked last quarter, we said we were expecting to run one to two points above pre-COVID levels. That could and it varies, we get spikes as we've talked about in the past around say spring break, we get spikes around the holidays anyway just normal course, because our program doesn't have breaks, other than this one week that we've referenced in December. Other than that, it's straight through from start to finish.

And so, one to two points above the normalized level. That would be roughly 600 to 800 LOAs again depending upon the time of year, we were in the 700s at the time of the last call, so, we were in that range. We spent much of December over 1,000. And we had two really strong LOA return cycles both with our January 11th cycle as well as just this past Monday, and we're much more normalized so far this quarter get back to where we would have thought to be if not even a little bit better on that.

Steven Frankel
So now you're back to somewhere around 700 again?

Jerome Grant
Yes, in that normalized range. Again, it's going to vary month-by-month, but definitely something in a more normalized range of what we would have expected.

Steven Frankel
And how challenging is this failure rate issue, is this a….maybe how many students are affected and how long does it take you to get your arms around that and get those students back on track before they drop out?

Jerome Grant
Well, its a few cycles. I mean, if a student is unable to complete a course within two or three tries, they're typically not going to not going to make it, pass that course. So we've, as I mentioned, have a number of initiatives of mentoring, identifying. And again, not all this is new, it's evolving, right in this newer environment that we've been operating in the last number of months. But we have put even if more incremental emphasis and do have some new programs. The mentoring is a newer program for us but identifying at-risk students earlier, the efforts around our transition from Google Classroom to Blackboard. So, we'll have a fully integrated suite of students curriculum and student management support. So, all of those initiatives we see when we pilot them, improvements and now we're rolling them out more broadly. So, really again, we didn't…I would emphasize, we didn't go backwards. We just didn't move forward as much as we would like to have seen, because we were going into a headwind there in the latter part of the quarter on some of these metrics.

Steven Frankel
Okay.

Jerome Grant
Yes, Steve. It's Jerome here. I mean, one of the challenges and giving you a definitive answer on the withdraw thing is also the notion of we have a number of students who either get sick or have to quarantine, don't call us, just miss a couple of weeks, and then come back for the third week and fail the course, and think, "Oh, you know what I better try a retake or maybe I'll just pause for a little while along those lines." And so, it's not unrelated to COVID in and of itself, there are other factors involved with that too, but it's not unrelated to COVID in and of itself. And so, what we've been seeing so far in the second quarter is a significant reenrollment rate, which again, gives us confidence in reiterating our guidance for the balance of the year.

Steven Frankel
Okay. And with the high rate of unemployment, have you seen a significant mix shift more towards 18-to-24, year olds than you had pre-COVID.

Jerome Grant
Yes. That's a really great question, there's a couple of ways to answer that. One, we've seen a mix shift in our major metropolitan areas where a lot of the service jobs went away with the closing of restaurants, closing of retail things et cetera along those lines. We've seen a compression in the number of days it takes someone to start from when they inquire. Again, something that's indicative of people who are readily available to start work. And more than the 20 to 25, year olds, I think there are a lot of 18, 19-year olds that graduated from high school last year who didn't find that job they thought they would find when they decided they weren't going to go to school. And so, if anything, what we saw in this last quarter was a more pronounced number of that 18, 19-year-old, who left school last September, but didn't find anything to do, right?

And so, if we look at what sort of stacks up in terms of the last quarter, we had some pent-up demand, we remember when we talked the quarter before and we had said that, there are a number of students who were fearful of starting in the back-to-school season that came through in November and December of more of those starts, and those are the younger students. And then, also, we saw more local students, again, people who are readily available. And then, the lead volume I think that it also fueled that as well. So, we are, as Troy said, it's hard to say, yes, this is all unemployment because there still was the notion of a delay because of COVID, but I think that anecdotally we are seeing a lot of students that just weren't unable to find that unskilled labor job when they left high school of last year.

Steven Frankel
Okay. And then, one more...what changes are you making to your high school recruitment efforts, given the challenge in the COVID?

Troy Anderson
Yes. We've....that's a great question. One, we are getting more access to the high schools then we originally expected, when we talked through the year of how we were going to...of how we were going to navigate. So, one we are actually somewhat pleased with the amount of high schools we are getting access to either virtually or in person, that's great. But, we have also much more events-based, outdoor events-based recruiting efforts on weekends et cetera, car shows, brining people to our campuses in the parking lot, socially distance of course, all that sort of stuff. And we are seeing really are virtual events with whether they are racecar drivers or whether there are people that are in the employment community and that events based approach is actually bringing more people to us as they think through.

We also think things are if you look at the faster data in the United States, we think that, that things are just a bit delayed as well. The early half numbers were double-digits down early on in the year and we are beginning to start to see a bit of a catch up I think as students were just sort of surviving in that September/October time frame, not thinking about what I am going to do next year and how I am going to learn online over hybrid or what this all means. But you know whereas by March or April, pretty much everyone has decided what they are going to do, we really don't see the year going that way this year. We think that the decisions are going to go a little later as people pivot from surviving their senior year to thinking about what I have to do next.

Steven Frankel
Great. Thank you.

Troy Anderson
Sure, thanks Steve.

Operator
Thank you. And the next question comes from Eric Martinuzzi with Lake Street.

Eric Martinuzzi
Yes, I wanted to drill down on one of the segments and the channel the new student starts by channel, just like the military has been pretty strong here in the last two quarters. Could you explain what's behind that trend?

Jerome Grant
A couple of things. One, we are anecdotally hearing that a number of the people who are enrolling and starting are people who may have wanted to go directly out into the workforce, but the job market just isn't robust enough for them to do it. So, I would attribute some of that to the unemployment rate that's out there that folks are thinking more about that. And also, when we look at where enrolments are coming from in the military channel, our on-base programs are generating more leads and more enthusiasm towards UTI, therefore we are doing our part with the military to train people on their bases or their camps. But the folks that aren't able to participate in that, those are great leads for us to bring into our campuses once they rotate out. So, we are starting to see some, some moment off of that as well.

Eric Martinuzzi
I didn't understand your first comment about the unemployment versus military. Could you recap that for me?

Jerome Grant
Well, so, so, when someone is rotating out of their service, there is a number of things they can do. They can take advantage of the GI bill and they can go on to higher education or to...or they can go out into the job market. And a significant portion of them don't take advantage of the higher education benefit that they get and go out into the job market. And I think what we have been seeing is a number of people who are rotating out of the military aren't finding jobs. And therefore, they then choose to exercise their GI benefits to learn a skill and move forward.

Eric Martinuzzi
Got you. Okay, thanks for taking the time on that one. Troy, I wanted to ask about the operating expenses in the business, what should we anticipate, are we level for that year as we go into Q2, Q3 or is there a step up as the business comes back?

Troy Anderson
No, I mean, I think we will see some trending up within the guidance. If you do the math around there, you will get some higher expense levels as we get into the back half of the year. We have obviously the higher students as we get into the back end of the year with the starts strength and as we stabilize the student base, we'll add students particularly heavily in the fourth quarter as usual. So, definitely a spike up there, and you will see a little bit of some investment in a very areas that may show up on the SG&A side, not significant but they will trend up a little bit. So, I think generally speaking you would model that increasing throughout the year.

Eric Martinuzzi
Okay. But somewhere if we were 75 million, I think that was the number in...

Troy Anderson
75, yes

Eric Martinuzzi
75, in Q1. Does that, you are saying might trend up into the 80 to 82 range over the year or is something bigger than that?

Troy Anderson
Yes, by something in the low 80s by the time you get to the end of the year.

Eric Martinuzzi
Okay, all right. And then, last question. use of cash here, obviously you guy made a big decision to go ahead and buy the MML facility that's $45 million that went to own it versus lease it. Just wondering the logic there versus maybe keeping more dry powder for acquisitions of other education-related businesses. What was the thinking at the Board level on that one?

Troy Anderson
Sure. I mean, we are as we have been commenting this call, last call, and since last year, we are aggressively pursuing our opportunities for growth and diversification. So, I think we have also talked about there's timing around that, even if we announced an acquisition today it would not, the money would not leave our hands, given that the diligence process, the pre-acquisition review process, the department of Ed, the ACCSC, the various steps that we have to through, for six or nine months.

And so, let's say at new campus or even the welding we made a welding announcement last week, well that's '22. Two programs in '22 but we have to announce it now because we have all that lead time to implement it and those are relatively shorter lead time type initiatives. So, as we were looking at opportunities, we think of ourselves as opportunistic in the real estate state, we own Dallas and Houston. We've owned other campuses in the past and then done lease backs when the company needed cash, Avondale there was a great opportunity there. We are clearly making a huge strategic commitment to that site and we were able to negotiate what we felt was a pretty good deal. And then, we are, you will see in the queue, which will be filed tomorrow, we are looking at our financing options there so we can replenish that cash at a pretty low rate, I think as you probably know and so we don't think if it is limiting at all. We think we have plenty of option and again we will have more to talk about as we go forward here as we get further down the path on our strategic options.

Eric Martinuzzi
Yes, I appreciate the explanation. I have to be reminded about the timelines in education related M&A. So, appreciate the color, that's it from me. Thanks.

Troy Anderson
Great.

Jerome Grant
Thanks Eric, great question.

Operator
Thank you. And this concludes the question-and-answer session. I would like to turn the floor to Mr. Grant for any closing comments.

CONCLUSION

Jerome Grant
Thanks a lot. Well so, as we have consistently underscored in the past, Troy and I believe in a very open and transparent partnership, with the investment community. To that end, we look forward to meeting with as many of you as possible over the coming days and months. So, thanks everyone for joining us and that concludes our call for the day. Thank you.

Operator
Thank you. As mentioned, the conference has now concluded. Thank you for attending for today's presentation. You may now disconnect your lines.