Universal Technical Institute

Universal Technical Institute Fiscal Second Quarter 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

Jerome Grant - *Chief Executive Officer*

Troy Anderson - *Chief Financial Officer*

Matt Kempton - *Vice President of Corporate Finance*

PRESENTATION

Operator
Hello, and welcome to the Universal Technical Institute Fiscal Second Quarter 2021 Earnings Conference Call. With us today are Jerome Grant, Chief Executive Officer, Tony Anderson, Chief Financial Officer.

Please note today's event is being recorded.

I would now like to turn the conference over to Matt Kempton, vice president of corporate finance. Mr. Kempton, you may please go ahead.

Matt Kempton
Thank you, Operator.

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're subject to inherent uncertainties, risks and changes in 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'll refer to adjusted net income or loss, adjusted EBITDA and adjusted free cash flow, which are non-GAAP financial measures. Adjusted net income or loss is net income or loss, adjusted for items that affect trends and underlying performance from year to year and are not considered normal recurring operations, including the income tax effect on the adjustments utilizing the effective tax rate.

Adjusted EBITDA is net income or loss before interest expense, interest income, income taxes, depreciation, amortization and adjustments 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, less capital expenditures adjusted for items not considered as part of the company's normal recurring operations. Management internal uses adjusted operating income or 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 to 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.

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

Jerome Grant
Thank you, Matt.

Good afternoon, everyone, and thank you all for joining us today.

To begin, I'd like to again thank our faculty and staff for their tremendous work during this quarter and applaud the efforts of all of our students.

As a company, we're proud to announce that we had a very successful quarter while executing on some of the first important steps in our growth and diversification strategy.

All of our campuses were fully operational. And we started 2,405 students in the second quarter, which represents a nearly 15% increase over the prior year quarter.

Importantly, we maintain our focus on supporting our students, their families and our teachers as we emerge from the pandemic. And while maintaining strong educational and employment outcomes.

We performed better than we expected during the quarter and remain confident in our previously outlined 2021 guidance, which will set us up exceptionally well for fiscal 2022.

Troy will go into more detail on our quarterly performance and '21 guidance, as well as give you some initial thoughts for 2022 and beyond in just a few minutes.

As far as student demand, we continue to see strong prospective student interest in our programs, which both fueled our double-digit start growth in Q2 and provides critical insight into the projected performance for the balance of the year.

We're also seeing tangible results from our more targeted advertising strategy that we discussed last quarter, with Q2 media inquiries growing 14% year over year.

As a reminder, we've begun to allocate more resources towards advertising to potential students living within the commuting distance of our campuses. This strategy further drives the efficiency and effectiveness of our campaigns by reducing the number of students who must relocate to begin their studies.

Mind you, this momentum I'm referring to, heading towards our next fiscal year, is entirely separate from, and additive to, the additional strategic actions we have announced this far, which will bear fruit in 2022.

These actions include the new state-of-the-industry, blended learning-oriented campuses that will be opening in 2022 in Austin, Texas, and Miami, Florida, as well as real estate rationalization projects in Orlando, Florida, Sacramento, California and Avondale, Arizona. These projects should produce substantial financial benefits in fiscal '22.

More significantly, for 2022 and beyond, our recently announced agreement to acquire MIAT College of Technology represents an important early step in our growth and diversification strategy.

I want to spend a few minutes outlining in more detail how these steps we took this quarter fit into our vision and make sure that everyone understands that these actions are merely the beginning of our strategy.

The addition of MIAT to the UTI family represents an excellent strategic fit for a number of reasons:

First, as a standalone acquisition, MIAT improves UTIs, already strong financial position. The school's two campuses in Canton, Michigan and Houston, Texas, have a robust growth profile with respect to student starts, revenue, EBITA and outstanding outcomes in terms of both graduation and employment rates. Like UTI, MIAT is a well-respected and industry online provider of technicians in their area of focus. Upon successful closure of the acquisition, will gain nearly immediate access to the MIAT accredited and certified high demand programs and credentials in such fields as aviation maintenance, renewable energy, robotics and HVAC that are not currently offered at UTI.

We believe the addition of the MIAT programs across the UTI footprint will be as if not more successful than the typical welding program expansion you've come to expect from us. To that end, we plan to start with the launch of MIAT programs at least nine campuses within our UTI network and possibly introduce diesel program at the Canton MIAT campus. We are diligently preparing ahead of the closing to make sure we can roll these out as soon as we get proper regulatory approval. I would note that we currently do not anticipate any regulatory challenges to closing this deal as scheduled.

As we have extensive experience launching highly successful new programs within our existing network, we are confident in our ability to do so quickly with proper execution. To be clear and to underscore the important value proposition to investors with respect to this transaction, the MIAT acquisition goes well beyond simply adding two new campuses to our geographic footprint. It adds an entire new array of programs that will allow us to move beyond transportation and more broadly into other high-demand skilled trades. Our plans should more than double this business within just a few years after close.

Turning to other key steps, we took this quarter to advance our growth and diversification strategy:

We recently announced the launch of two new campuses in Austin and Miami in 2022. Although organic in nature, these are no less important. And in addition to the proven financial benefits we'll accrue from adding these locations, they provide two more opportunities for us to bring MIAT programs into our footprint rapidly. This will most certainly enhance the already impressive returns we derive from launching new campuses.

We chose these two locations, Austin and Miami, based on our proprietary location and program evaluation model for long-term student and employer demand. These two campuses will be the first two to be launched using the purely blended learning model, which will not only allow for higher margins than our successful metro campus but will also provide us with the flexibility to utilize additional space for additional programs. These announcements alone set us up to grow the top-line in excess of 10% Compound Annual Growth Rate through 2025 and expand our adjusted EBITDA margin to over 20%. But we want to make it clear that these are merely baseline goals tied to the first steps in our growth and diversification strategy.

Although these first steps could lead to the company nearly doubling revenues by 2025 as compared to 2020, we are actively exploring additional inorganic and organic avenues for student,

revenue and EBITDA growth, and our strong financial position and solid cash generation will enable us to continue to pursue additional opportunities even as we progress on those we already announced.

This strategy, at its core, is really about expanding UTIs' value proposition of training our students for great careers in high-demand fields. By diversifying both geographically and in our program offerings, we are able to expand our addressable market and provide more students with high-quality, industry-aligned education in areas where the demand significantly outstrips the supply of highly trained and certified workers.

In a different era, high school graduates could obtain these types of good jobs that paid them a wage that enabled them to pursue and afford a middle-class lifestyle. But for the most part, that's just no longer the case, and it hasn't been for some time.

Filling today's acute skills gap more often than not requires training and industry credentials. This is our focus and our mission as a company.

An excellent example of the mission in action is San Diego native Stephanie Morales. Stephanie recently graduated from the 36-week Welding Technology Program at our Rancho Cucamonga campus just outside of Los Angeles. She came to UTI after completing high school, and upon graduating from UTI, went directly to work for General Dynamics in San Diego.

Stephanie says she chose UTI because she wanted to focus on education that would lead to, and I quote, "easily getting a job and making good money," and, of course, she was also keenly interested in doing something she could be proud of.

Stephanie uses her welding skills to build and maintain ships for the U.S. military at General Dynamics NASSCO Shipyard in San Diego Harbor. She says the reason she loves her job is because she is doing something important to help protect our country. Stephanie told us she's proud to be a woman in the welding industry and that she wants to inspire more women to become certified welding technicians, especially her 11-year-old twin sisters. She wants to show them that they can achieve whatever they aspire to do.

We believe that a high-value, industry-aligned technical education in fields like welding, where there is strong demand for trained talent, delivers immense value for our graduates like Stephanie, for employers who hire them, and for our country.

Speaking to the broader needs of our country, we're often asked which administration or party is better for our business and how we think about what many presume to be our competition across the country, namely community colleges. Well, of course, we stay current on potential regulatory and other changes in our industry, we don't really focus on which party is in power or which post-secondary education approach benefits more or less as a result, as we realize that filling the drastic need for people with technical skills is a group effort.

We welcome the stepped-up efforts our government is indicating it will take to help bridge the gap between high school education levels provided across the U.S. and the specific technical requirements that employers increasingly require at all levels. We need and want community colleges to succeed because they help to address the broader critical need that we have in this country. The value we bring to our students, we believe, is both unique and nonpartisan.

While we are fully aware that the global pandemic has caused some less than favorable results for our company over the past few quarters, we feel that our commitment to students and engagement efforts paired with the growth and diversification strategy will propel this business into its next chapter with a tremendous amount of momentum. As we have noted in the past, we're confident that we've built a core business that grows at low to mid-single digits in any economy, and the strategy we are now executing on is designed to build upon that organic growth an opportunity that we believe is substantial.

I'll now hand the call over to Troy for his in-depth discussion of our operating performance, 2021 guidance and our initial thoughts on fiscal '22 and beyond.

Troy?

Troy Anderson
Thank you, Jerome.

It's Jerome mentioned, we executed well operationally and against our strategy this quarter and delivered results that surpassed our expectations. I'll spend a few minutes discussing the quarter results and then discuss our fiscal 2021 guidance and our strategic roadmap for the next several years.

We continued effectively converting strong prospective student interests with 2,405 new student starts during the quarter. This marks the second consecutive quarter of double-digit start growth, a 14.9% increase versus the prior year quarter with growth across all three channels.

The show rate for the quarter exceeded our expectations by 50 basis points but decreased 150 basis points year-over-year. Year to date through the second quarter, the show rate is roughly flat year-over-year, a very positive outcome considering the show rate during the first half of fiscal 2020 was not impacted by the pandemic. We expect consistent year-over-year improvement in show rate as we move forward.

Scheduled new student starts were 18.3% higher than the prior year quarter, the same increase we saw last quarter.

Scheduled new students start the third quarter are currently pacing measurably higher year-over-year than we've seen the last two quarters. Momentum continues to build for the fourth quarter as we refine our marketing messaging and high school access efforts, all of which further builds confidence for our fiscal 2021 expectations.

Average active students increased 10.8% during the period as compared to the same quarter last year. Average active student year-over-year growth will be elevated the next few quarters, given our front-end strength, combined with the COVID impacts we saw in the second half of last year. Our growing student base positions us very well to meet our fiscal 2021 guidance and for strong organic growth in fiscal 2022.

For the second quarter, total revenue was $77.7 million, down 6.1% versus the prior year quarter, with a decrease primarily attributable to revenue per student. While down year-over-year, we reduce the revenue decline by more than half relative to last quarter. Revenue per student increased measurably relative to last quarter as expected, and we were pleased to see it modestly above where it was two quarters ago. As discussed last quarter, we have many initiatives underway to support our students that are beginning to normalize the pace at which students are

completing the curriculum, this driving enhanced educational outcomes and improving revenue per student. This will continue to be a focus for us and is a key element for achieving our guidance.

Many of our students have come a long way since the pandemic initially inhibited their coursework last year. I'm proud to say that as of the most recent course rotation, the number of students fully caught up with their labs stood at 93%, as compared to 84% at the time of our last earnings call. As a result, deferred revenue for the quarter was only $800,000 versus $2 million last quarter. Recall that we originally deferred approximately $11 million in the 3rd quarter of fiscal 2020 when we saw the greatest COVID impact on student course progression.

Operating expense for the quarter decreased 4.6% to $79.4 million, with the largest driver being a 2.4 million decrease in occupancy costs as a result of the actions we have taken in the past year, including the Norwood campus closure, the downsizing of our Sacramento campus and our headquarters facility and the Avondale campus purchased. Note in the quarter we incurred approximately $800,000 of acquisition-related costs that we are adjusting out in our non-GAAP measures. Overall, we are confident in our ability to continue creating operating leverage across the business to our real estate rationalization efforts, optimization of our blended learning model in other cost efficiency and productivity improvements.

Operating loss for the quarter was $1.7 million compared to a loss of $4.5 million in the prior year, largely due to lower revenue, while adjusted EBITDA was $2.8 million, compared to $3.1 million in Q2 of 2020. The minimal adjusted decline, despite lower revenue and higher average students versus the prior year, highlights the efficiencies we are gaining in our operating model and the effectiveness of our cost management efforts.

Net loss for the quarter was $1.5 million compared to net income of $10.1 million in the prior year quarter. Note prior year net income includes the $10.8 million income tax benefit that was the result of revised net operating loss carryback regulations under the CARES Act.

Basic and fully diluted loss per share were both $.09, with 32,814,000 common shares outstanding as of the end of the quarter.

Going forward, we will be reporting adjusted net income as opposed to adjusted operating income in our non-GAAP measures, as we believe this will be a better performance indicator for our business given our expected profitability and the impact of our strategic initiatives.

For this quarter, our adjusted net loss was $0.8 million compared to adjusted net income with only $0.3 million in the prior period, which excludes the CARES Act income tax benefit.

Turning to the balance sheet and cash flow, available liquidity as of March 31st was $78.5 million, which includes $59 million of unrestricted cash and cash equivalents and $19.5 million of short-term debt maturity securities. Cash flow has been strong in the first half of the year as we are returning to more consistent student matriculation patterns and fund flows, and our expected capex is weighted to the second half of the year. Year to date, adjusted free cash flow increased by $3.7 million versus the prior year to $10.4 million, and cash from operations increased $6.6 million to $17.5 million.

On another note, we continue to explore potential financing opportunities for the Avondale campus to further increase our deployable capital, and we'll update you when additional information becomes available on this topic.

Regarding our fiscal 2021 guidance, with half the year completed, continued front-end strength and improving operating performance, our confidence has only increased. As a reminder for fiscal 2021, we anticipate your every year new student start and revenue growth of 10-15% adjusted EBITDA of $30 to $35 million and adjusted free cash flow of $20 to $25 million. From a revenue pacing perspective, the guidance implies delivering revenue in excess of $80 million in the third quarter and in excess of $95 million in the fourth quarter.

We are pivoting our prior net income guidance to adjusted net income of $14 and $19 million, which will adjust out the impact of acquisition-related expenses, strategic investments and other non-recurring items.

As Jerome mentioned, it's also important we spend a few minutes on our strategic roadmap. With the announcements over the past few months regarding the initial steps in executing our growth and diversification strategy, we provided an outline of the expected impact both from our base business and the announced initiatives. The announcements include the ongoing expansion of our whaling program, new campuses in Austin and Miami optimized around our blended learning model, which we expect to launch in fiscal 2022, and the definitive agreement to acquire MIAT, which we expect to close by the end of fiscal 2021.

In summary, assuming successful execution of these initiatives within the timelines we have announced, including closing the MIAT acquisition, we estimate that the aggregate impact of these actions, coupled with the trajectory of our base business, would result in an average annual revenue growth rate exceeding 10% over the next several years, thus positioning the company to deliver annual revenue solidly over $500 million by fiscal 2025, with an adjusted EBITDA margin in excess of 20%. It's important to note that this is not guidance but represents what we believe to be a conservative view of the future of the business, incorporating these specific initiatives.

Breaking it down into the key components, the base business, which includes the welding expansions, we estimate we will see double-digit revenue growth in fiscal 2022, given the momentum we expect to carry out of fiscal 2021 and the full-year benefit of operating any more pre-COVID like environment. We then expect growth rates to normalize in the low to mid-single digits going forward, excluding any counter cyclical upside. Adjusted EBITDA margin for the base business should also be expanding throughout this time horizon.

For the Austin and Miami campuses, in our strategic update, we published a proforma view of their financials, which reflects their estimated direct revenue and EBITDA contribution. Both begin ramping in fiscal 2022, and combined, they should generate approximately $36 million of revenue in fiscal 2023 and reach approximately $46 million in combined revenue by fiscal 2025. Note this only includes the auto, diesel and welding programs that we plan to initially launch at these campuses. We also expect them to deliver very healthy direct EBITDA margins, which we estimate will exceed 60% by fiscal 2023, reflecting the expected operating efficiencies associated with our blended learning model.

For MIAT, as a standalone entity, revenue growth has averaged 20% per year over the last five years, generating approximately $25 billion of revenue in 2020 and $3.5 million of adjusted EBITDA. Given the existing trajectory and the highly realizable growth synergy opportunities through cross-selling and program expansion, we believe we can more than double this revenue stream by fiscal 2024 and continue growing from there. We would also expect to more than double adjusted EBITDA margins for this business, given operating leverage and costing.

With the combination of the base business strength, the new campuses launching in fiscal 2022 and the MIAT acquisition closing by the end of fiscal 2021, we would expect to see the overall fiscal 2022 revenue growth rate in the low to mid-20s and adjusted EBITDA margin in the low teens. Fiscal 2023 should also be a double-digit revenue growth year and show further margin expansion as we get the benefit of the new campuses ramping and the growth synergies with MIAT. We will continue monitoring the progress of the various initiatives and our base business performance and expect to provide formal FY 2022 guidance in our FY 2021 fourth quarter earnings call later this year.

The organic growth investments we are making, along with the pending MIAT acquisition, are foundational pillars to our overall growth and diversification strategy. Importantly, as Jerome emphasized, these are initial steps, and we remain actively engaged in evaluating further opportunities to execute on and to move us further down this path.

With that, I want to thank the UTI team for their focus and dedication in delivering quality education and strong outcomes for our students and for the strong financial and operational results they delivered this quarter.

I'll now turn the call back over to Jerome for closing remarks.

Jerome Grant
Thank you, Troy.

Before we address your questions, I'd like to quickly discuss our recent announcement, appointing Congresswoman Loretta Sanchez to our Board of Directors, which became effective May 4th.

We're very excited to welcome Loretta to the board. She's a former Democratic congresswoman that represented a majority Republican county in Southern California for ten consecutive terms. That achievement alone should tell you something about Loretta, the tenacity, passion, creativity and innovative approach she brings to her work.

She held numerous important committee assignments during her years in Congress, including a senior member of the House Armed Services Committee, the Joint Economic Committee and as a founding member of the House Homeland Security Committee.

She also served five years as a member of the House Education and Labor Committee.

Loretta is a passionate advocate for higher education, working to ensure that access to all types of quality higher education is available for students and returning adults. She believes that people need choices to be able to prepare for their future job opportunities.

Loretta has also had multiple family members who work as auto technicians and has seen firsthand the value of schools such as UTI. She's excited to be part of the company and to engage in our efforts to help address the growing skills deficit we face in this country and the important work that our program's educators, business partners and others play in providing opportunities to meet critical needs.

We look forward to working with you, Loretta.

In closing, we're pleased with the solid results we deliver this quarter and are even more excited about the momentum we're taking into the back half of the fiscal year and beyond. Our students

are doing a fine job of navigating the new normal and making good progress towards reaching their career goals. We are proud of their dedication and resiliency.

Our growth and diversification strategy has now taken flight with the pending acquisition of MIT and the announcement of two new campuses in 2022. But the most important message you need to understand regarding our strategy and the steps we've taken so far is that we're just getting started.

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

Operator?

Operator
We will now begin the question-and-answer session. To ask a question, you may press (*), then (*) on your phone. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press (*), then (2).

At this time, we will pause momentarily to assemble our roster.

Our first question comes from Steven Frankel with Colliers. Please go ahead.

Steven Frankel
Good afternoon, and thanks for the opportunity.

A lot to unpack here, and I had trouble keeping up, so could you start with the comments on fiscal '22 in terms of growth rate and margin profile? I know it's not guidance, but--again, repeat what the overall feel should be for 2022?

Troy Anderson
Yeah, hi Steve. This is Troy, and thanks for the question.

The--when we think about 2022, you know, we carry a lot of momentum out of 2021 with our start performance through the air, our improving metrics overall. And--we get the full-year benefit of, you know, operating in a more, you know, in my words, pre-COVID-like environment. And so that combined with the campus launches and the MITA acquisition, that successfully closing by the end of the year, we believe, you know, we should see growth rates in the low to mid-20s and margins in the--you know, in the low teens for next year. And that's again on a preliminary basis, But that's--how we see it shaking out so far.

Steve Frankel
Okay, great. That sounds pretty good.

Can you remind us what the EBITDA margins look like at MIAT?

Troy Anderson
Yeah, for calendar '20, they're--counting your company. They had $3.5 million of adjusted EBITDA on $25 million in revenue. It's about 14%. And again, our number two, by the way, just for clarification, was. The margin I was referencing was adjusted EBITDA.

Steve Frankel

Okay.

And were their margins materially different in 2021?

Troy Anderson
Well, they've been--their growth has been driven by both program expansion as well as, you know, marketing, improved marketing efforts, and so the--programs, you know, come with some cost to implement. So they've been expanding their margins over the last several years in conjunction with their--growth trajectory, and as the programs they've, you know, launched over the last few years have matured.

Steve Frankel
Okay.

And then on the show rates, we would have thought by now we would have been seeing a material improvement over last year, and you didn't seem to imply that in your comments. --What's going on in the show rates? And when do you think that starts to normalize?

Troy Anderson
Sure, yeah.

When we--projected this year, originally we started--we looked at '19 and '20, the first half of 2020, the first half of 2020 was not affected--from a show rate perspective, was not affected by COVID. And so when we--looked at this year, you know, we had to start with, well, how are we jumping off from the latter part of last year? And then we looked at--'19 for the back half of the year and more '19 and '20 for the front half of the year.

But we--were pleasantly surprised. You know, Q1 was much stronger than we expected. I think we talked about it was 350 basis points, you know, better. And so we were actually better this quarter by 50 basis points than our expectation while still down year-over-year. Our--assumption was show rates would gradually get better throughout the year. We started off strong in Q1 because of the carryover of students who deferred out of Q4--but we think we're on the right trajectory, and we see, you know, continued positive momentum through the rest of the year.

Steve Frankel
Okay, perfect.

And one of the issues you brought up last quarter was not just students being behind, but being fail--failing their coursework. How have you done in mentoring these students and getting them back, passing their courses?

Troy Anderson
Yeah, we--you know, we talked about that in the context of the quarter ended December 31, and with the COVID m going on and some of the churn we were seeing in the student base, and we had talked about the many initiatives, we have underway. I've referenced those in this quarter as well. We're seeing the yield frankly from those initiatives, the mentoring, the conversion to the blackboard for our curriculum delivery. It gives us a more integrated way to manage, you know, student performance, monitoring at-risk students, you know, five-day labs. You know, a lot of different initiatives where we're really heightening our student engagement model and bringing them through the curriculum.

And we're seeing benefits of that. We've had much lower leave of absence. We've had much lower withdrawal. So, you know, we think we're definitely on the other side of, you know, some of the challenges coming out of the latter part of last year. And the first part of this year. And--again, that gives us a lot of confidence as we look at the back half of the year.--in achieving our guidance.

Steve Frankel
Okay, great.

And one last one. How many of your current or projected campus locations are reasonably close to a regional airplane or airline hub where MIAT could--make a difference in filling that skills gap?

Jerome Grant
Well, I think--this is Jerome here. Good to hear from you, Steve.

First of all, it's important to understand that MIAT, as an organization, is about a third airline mechanics and two-thirds in the other skilled areas. Just to understand, name aside, they have a broad set of skills that they--age on, on their campus. And we're proud to have them heading towards being part of the family.

We have a number of locations in mind for aviation where--aviation demand is--high. And it isn't necessarily how close they are to an airport as--or what city they're in, which has airports in it, both private airports as well as commercial, because, you know, of course, turbine technicians work on--both kinds. So there's, you know, a number of our major cities have quite a robust opportunity in aviation.

But it's important to understand also that, you know, other skills and the MIAT, you know, group--would be also great high demand skills. You know you heard the government talk about the infrastructure plan, adding wind farms off the coast in Florida and California. They are a large supplier of wind technicians on their two campuses. And we can see that moving very, very quickly into our campuses as well, especially in the areas--of high demand, robotics, HVAC. There's a number of very high-demand areas that, you know, we're keen to bring across our footprint.

Operator
Our next question comes from Raj Sharma (PH) with B Riley. Please go ahead.

Raj Sharma
Hi. Good afternoon, guys. Thank you for taking my questions.

Unknown
Hi, Raj.

Raj Sharma
I just wanted to--hey, how are you?

I just wanted to hit the fiscal '22 numbers that you just talked about. They seem very--they seem exciting, so I guess there's a lot of interest there. But I missed some of it. And I'm glad that Steve repeated those earlier. So fiscal '22, you're looking to low to mid-20s growth rate and then low teens margins. And these are the--do they--these don't include any cross-selling of MIAT programs across, you know, 12 campuses.

Troy Anderson
In fiscal '22, we would--we don't assume we're--we'll probably be--our baseline assumption, let me start there, for MIAT is, you know, closed by the end of this fiscal year. And again, that is subject to Department of Admin Approval. And then, you know, most of '22, if not all of '22, would be getting the appropriate approvals and doing implementations and things like that. So the yield from--there may be some minimal cross-sale yield, but really it starts primarily in '23 and beyond.

Raj Sharma
Right.

And so then--and what gives you confidence on the EBITDA margins? Is that just--so are those EBITDA margins low teens that you're talking about in '22? Their exclusive of any operational losses from the two new campuses, rate?

Troy Anderson
Correct, it's adjusted EBITDA. And we did--I will point you to we provided some additional clarification on the guidance and the non-GAAP schedule so you can see the impact of the--FY '21 campus implementation costs, acquisition costs that we've adjusted out, things like that. So you would see a similar format for '22 once we roll that out.

Raj Sharma
Got it.

And so--and this year's guidance of 30 to 35 also excludes any operational losses from new--campuses/programs.

Troy Anderson
That is correct.

Raj Sharma
Got it.

Unknown
Yeah, and it's just the campuses. It's just the campuses.

The welding programs that we roll out are absorbed in our EBITDA results. We're not adjusting those out. And that's not significant.

The campuses is really what we're adjusting out.

Raj Sharma
Right.

And then on the remaining half of this year, clearly, you're maintaining guidance. You--and you had mentioned what the Q3 and Q4 numbers you're looking at. Are you--could you repeat those again? You were thinking greater than $80 million.

Unknown
Correct, greater than $80 million and greater than $95 million. And, you know, those get you to the low end of the range. And so, you know, obviously, we have a range, but.

Raj Sharma
Right.

Unknown
The third quarter we start with eight, and the fourth quarter would start--with a nine and be above 95.

Raj Sharma
Got it.

And then just one last question. If you could--you know, when you look at the average quarterly tuition per student, and I know that sequentially it's improving, it has been improving--can you kind of talk about where do you expect this number to go to? Because the high was around--you know, the high back in the fourth--quarter of 2019. The trend is definitely looking up this quarter. You know, it hasn't quite made it back to the pre-COVID level. Clearly, when do you expect that? Do you expect that the second half of this year to have been totally caught up?

Troy Anderson
Yeah, I think, you know, Q4 will look a lot more like-pre-COVID level and then we'd be, again, an absence on a major setback, the--you know, we would expect '22 to be, you know, pretty much fully normalized at that point, at pre-COVID levels.

And then, you know, we--basically, what you would see in our revenue per student pre-COVID was a modest increase each year, you know, a low single-digit increase each year, you know, just tied to more of our tuition pricing changes on a year-to-year basis. And so we would--we left off at 8000, 8100 a quarter. I think we'll probably get pretty close to that, if not there by fourth quarter this year, then--be there and beyond in '22.

Raj Sharma
Got it, got it.

And any--update on the share buyback that you had mentioned you might implement.

Troy Anderson
Well, we did--yeah, we did get the authorization from the Board back in December, refreshed authorization, if you will, for $35 billion. You know, we--that's certainly a capital allocation option as we evaluate, you know, our go-forward plans. I think clearly from the announcements over the last few months and what we talked about today, we've been prioritizing, you know, growth and diversification investments. But, you know, there is an authorization out there, and it's something for us to continue considering.

Raj Sharma
Right.

So, I mean, this is in line with, you know, whatever projects are higher--IRR, and that's how you're making the decisions. But otherwise, you're--you could implement a share buyback if you saw it fit.

Troy Anderson
We could. It is subject to the Series A, you know preferred shareholder consent, so that is still one step we would have to go through to execute any buyback. But yes, we--could. It's an option.

Raj Sharma
Okay, got it. Thank you.

Troy Anderson
Yep.

Raj Sharma
Great. Thanks for taking the questions. Thanks.

Operator
Our next question comes from Jacob Stefan (PH) with Lake Street Capital Markets. Please go ahead.

Jacob Stefan
Hi. This is Jacob on for Eric Martinus. (PH) Thanks for taking my questions.

Unknown
Hi, Jacob.

Jacob Stefan
Hello, I just want to start with the--welding program. What kind of man are you seeing?

Troy Anderson
We've--seen very consistent results each time we've launched a welding program. We just launched our Lisle campus here in this quarter, February. We launched Houston in May of last year. Long Beach in August of last year. And we pretty consistently fill those or near fill them, you know, after we start. And, you know, we build them at a specific size. Roughly 20 to 25 students can start every six weeks. And, you know, we generally are, you know, 75% plus or minus full on any given start date. So we see good demand there.

Jacob Stefan
Great.

Switching over to the MIAT acquisition, are you guys seeing any challenges with the closing timeline? I believe September was kind of a target for that.

Troy Anderson
No, we don't anticipate any roadblocks or hurdles in finishing in that timeline.

Jacob Stefan
Okay, great.

So student makeup labs, I know that was a big point in the last quarter. Are you--have you guys recognized all that revenue, or can you just give a little bit more color on that?

Troy Anderson
Yeah, the deferral as of the end of the quarter was $800,000. We had $2 million last quarter. Our original deferral was $11 million. So we're--we are cleared, obviously, of the vast majority of that. And I would expect, based on the progress we continue to make, even since the end of the

quarter, we would likely see that go away year at the end of this quarter, certainly by the end of the year.

Jacob Stefan
Great.

Thank you for taking my questions.

Troy Anderson
Okay, thanks, Jacob.

Jerome Grant
Thanks.

Operator
Again, if you would like to ask a question, please, press (*), then (1).

Our next question comes from Austin Moldo (PH) with Canaccord. Please go ahead.

Austin Moldo
Hi, thanks for taking my questions.

Given that the scheduled start growth rate was flat from Q1, even though it was very impressively high. Can you just talk to the trajectory of those scheduled starts throughout the quarter?

Troy Anderson
Within the quarter, you mean, or over the remainder of the year? I'm sorry, could you clarify?

Austin Moldo
Yeah, within the quarter?

Unknown
Trajectory within the quarter--?

Unknown
Yeah, we're going to need you to clarify a little bit more. Sorry, Austin.

Austin Moldo
Well, from--last quarter, I--think you said that Q2 was pacing ahead of Q1. And so the fact that it's now flat from Q1, I was just looking for a little color on what--happened over the--you know, from month to month, I guess.

Troy Anderson
Got it. Okay, yeah.

So, that was the beginning of February. And we, you know, have postpones. We have--we also--it's a pacing, right? So at that time, the number of--enrollments we had and then extrapolated out through the remainder of the quarter based on historical pacing arrives--at a number. It's a standard, you know, pipeline reporting mechanism we have internally.

So we started off the quarter faster, and so that contributed to more favorable pacing. And then we do implement, by the way, price adjustments typically in this quarter, And so that can contribute a little bit to some of that pacing. But, you know, it's slowed down a bit after that point and back to only 18%. And--we're seeing, you know, again, even stronger at this point in time.

It's a leading indicator, Austin. I guess, you know, we've been--trying to be fairly transparent on some of the leading indicators, given all the--noise over the last few quarters. But it's directional. It's not--it's by nowhere near baked, you know, at that point.

Austin Moldo
Gotcha.

Can you speak a little bit to the different channels within that? And then particularly, you know, how your outlook factors in high school contracts?

Troy Anderson
Yeah, I mean, we're seeing straight across--.

Austin Moldo
--High school.

Troy Anderson
Yeah, yeah, we're--I mean, we're seeing strength across all--the channels. High school has been surprisingly strong in the first half of the year. Some of that was carryover out of last year. Some of that is just delayed decisions.

We're seeing, you know, good strength in adult, good strength in the military. And, you know, our overall mix, I would say, we're not expecting dramatically different. We are assuming a little bit more adult than maybe we normally would, just given some of our current trends and, again, some of that delayed behavior that we're seeing out of high school. But I would say it's--dramatically changed.

Jerome, would you add anything to that?

Jerome Grant
No, I think you're--right on.

Troy Anderson
Okay.

Austin Moldo
Okay.

And then last question on MIAT. Can you talk a little about what marketing looks like once you complete that acquisition, sort of in terms of how, you know, your total advertising spend will be augmented? And I'm a little curious if MIAT, you know, was able to achieve even more attractive cost per start given there and some really high growth fields or just kind of what their cost per start is anticipated to be under--you know, under your roof?

Troy Anderson

Yeah, I mean, we're not going to get into too many details just yet on some of the underlying metrics on MIAT. I would say, broadly speaking, you know, they do market more locally to their campuses. They don't really have a relocation program. They accommodate it, you know, on more of an exception basis. And so that's, you know, one of the opportunities for us.--from a marketing perspective is to bring them into our, you know, broader, you know, marketing footprint and the broader channels that we have access to, the price points we have access to, you know, given--the scale that--we have relative to them.

And, you know, we'll continue. You know, we're excited about driving more students into their campuses, right, as well as--Jerome talked about, you know, bringing those programs into our campuses. Potentially putting diesel in their Michigan--Kent, Michigan campus. And all of that will fold into, you know, our overall marketing strategy, you know, as we go forward.

Jerome Grant
I also, I mean, just one comment would be. I mean, we have a significantly more developed high school channel, even though the demographic of the student that would take one of their programs is the same as ours.

And as I've said in the past, when we talked about acquisitions that would bring more skilled trades into our footprint, as well as potentially accentuate what they could do on their campuses, is that, you know, we're collecting, you know, nearly a quarter-million leads from high schools a year. And, you know, a lot of those 18 to 24-year-olds just aren't car people, but they may be interested in renewable energy, robotics, nondestructive testing, or HVAC. And it gives us more of an opportunity to convert those leads with their two campuses. And then also as we bring their programs across our footprint, So we--see some upside there.

Austin Moldo
Okay, thank you.

Jerome Grant
Sure.

Troy Anderson
Great, thanks, Austin.

Operator
Once again, if you would like to ask a question, please, press (*), then (1).

This concludes the question-and-answer session. I would like to turn the conference back over to Jerome Grant for any closing remarks.

CONCLUSION

Jerome Grant
Thank you, Operator. Appreciate your help today.

And thank you, everyone, for dialing into this quarterlies earnings call. We, as a management team, look forward to continuing to execute on our strategy and share our progress with the investment community. So thanks again for joining. I hope you have a great afternoon or evening, wherever you're calling in from. And this concludes our call. Thank you.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.