S&P Global
Market Intelligence

# Universal Technical Institute, Inc. NYSE:UTI

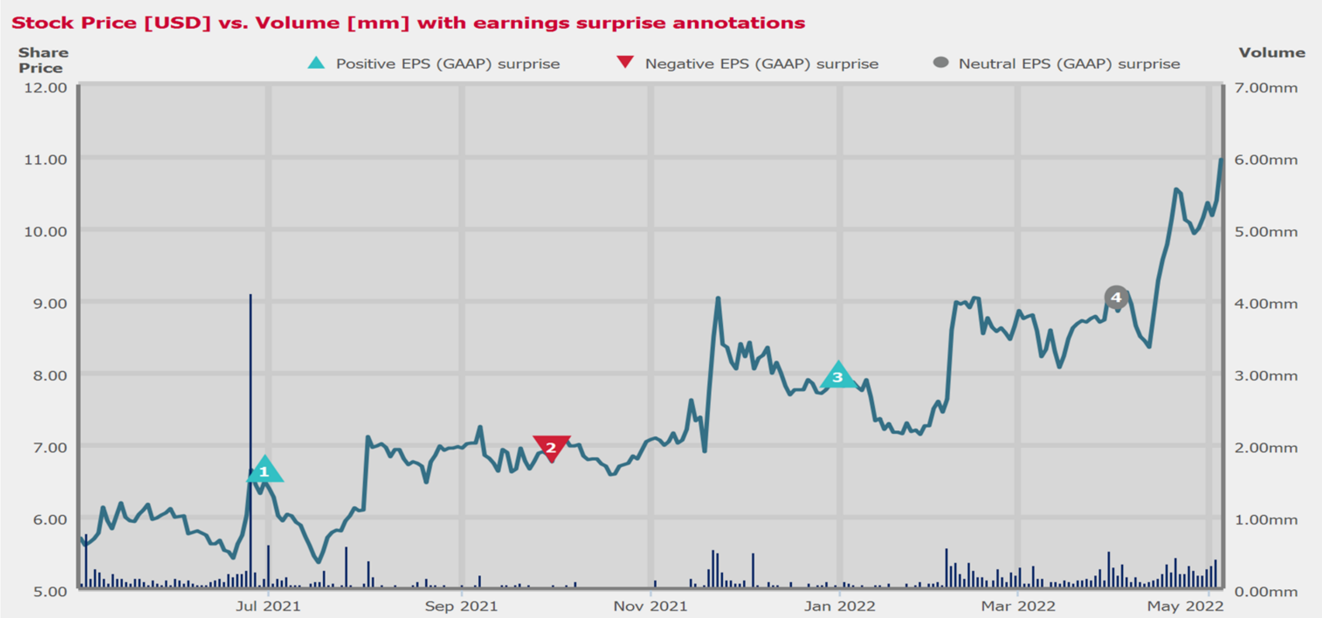
# FQ2 2022 Earnings Call Transcripts

## Wednesday, May 04, 2022 8:30 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ2 2022- | | | -FQ3 2022- | -FY 2022- | -FY 2023- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS (GAAP)** | 0.02 | 0.11 | - | (0.02) | 0.61 | 0.71 |
| **Revenue (mm)** | 96.48 | 102.09 | ▲5.81 | 97.62 | 413.02 | 458.18 |

Currency: USD
Consensus as of Apr-26-2022 3:01 PM GMT




**- EPS (GAAP) -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ3 2021** | 0.02 | 0.03 | ▲50.00 % |
| **FQ4 2021** | 0.24 | 0.20 | ▼(16.67 %) |
| **FQ1 2022** | 0.05 | 0.25 | ▲400.00 % |
| **FQ2 2022** | 0.02 | 0.11 | - |

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# Call Participants

### EXECUTIVES

**Jerome A. Grant**
*CEO & Director*

**Matthew Kempton**
*Vice President of Corporate Finance*

**Troy R. Anderson**
*Executive VP & CFO*

### ANALYSTS

**Mark Hagen**

**Rajiv Sharma**
*B. Riley Securities, Inc., Research Division*

# Presentation

**Operator**

Good day, and welcome to the Universal Technical Institute's Second Quarter Fiscal Year 2022 Earnings Conference Call. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Matt Kempton, Vice President of Corporate Finance. Please go ahead.

**Matthew Kempton**
*Vice President of Corporate Finance*

Hello, and thank you for joining us. With me today are our CEO, Jerome Grant; and CFO, Troy Anderson. During the call today, we'll update you on our second quarter fiscal year 2022 business highlights, financial results and vision for the future. Then we will open the call for your questions.

Before we begin, we want to remind everyone that today's call contains 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 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, relevant factors that could cause actual results to differ materially from the forward-looking statements are listed in the press release and our SEC filings and 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 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 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 less capital expenditures, adjusted for items not considered as part of the company's normal recurring operations.

Management internally uses adjusted net 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 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.

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

**Jerome A. Grant**
*CEO & Director*

Thank you, Matt. Good afternoon, everyone, and thank you all for joining us today. To start, I'd like to thank our students and staff for their continued commitment and hard work during the quarter, as we continue to navigate COVID obstacles with resilience and effectiveness to ensure our campuses continue to operate as seamlessly as possible. I'd also like to take a moment to express my appreciation to both our long-time investors, as well as a fair number of new investors joining us today. As always, we appreciate your support.

Today, I'll provide a few highlights from the quarter, cover our recently announced agreement to acquire Concorde Career Colleges and provide an update on our key strategic initiatives before turning the call over to Troy, who will take you through our financial results and guidance in detail.

As far as results, I'm pleased to report that we have delivered another strong top and bottom line performance this quarter, driven by higher average student population as well as higher overall revenue per student on a year-over-year basis. Revenue was $102.1 million, which is a 31% growth rate for the quarter compared to the year ago period and adjusted EBITDA of $10.9 million represents a growth rate of approximately 300% versus the comparable period a year ago. This past quarter, solid revenue for student results represented a stronger-than-expected bounce back from the COVID-19-related revenue for student persistence issues we experienced a year ago. Results from our recent acquisition of MIAT are also included in this quarter's results for the full period and have contributed in no small part to our performance.

While the effects on our business of COVID-19 and the ongoing set of variants have continued to receive this quarter, the most recent variant did have some impact on our start growth for the period relative to our expectation. New student starts trailed last year by 5.4% for the quarter. Therefore, we will be modestly adjusting our start guidance for the fiscal year relative to our high expectations, but we still expect to see strong overall growth for the year.

As far as our financial guidance is concerned, based on the better-than-expected performance we delivered for this period and through the first half of the fiscal 2022, we will be taking positive steps on our revenue and EBITDA guidance. Troy will provide more detail on these changes. I'd like to remind everyone that in our last quarterly update, in terms of expectations and risk, we indicated that the main risk that was outside of our control would likely be COVID-19 related, and that view has not changed.

I would now like to briefly review the important announcement we made this week as the next step towards continued advancement of our growth and diversification strategy. Yesterday, we announced that we have entered into a definitive agreement to acquire Concorde Career Colleges. We're incredibly excited about this announcement as we will soon be able to address the unemployment gap in the critical and growing health care field in the United States. I would like to begin by providing some background on Concorde as well as clarifying Concorde's fit within our growth and diversification strategy.

Concorde Career Colleges is a leading provider of industry-aligned health care education programs focused on preparing students for successful professions in a sector, which is expected to add about 2.6 million new jobs over the next decade. Across the U.S., our aging population, along with attrition in the workforce is expected to drive continued increased demand for health care services for the foreseeable future.

Currently, Concorde operates 17 campuses across 8 states with a total of 7,400 students. Its on ground, hybrid and online program offerings include nursing, dental hygiene, health care diagnostics and a variety of other critical health care roles. Similar to UTI, Concorde is highly focused on positive student outcomes as evidenced by their most recently reported graduation rate over 70% and aggregate employment rate over 80%. This acquisition will further elevate, strengthen and diversify our short- and long-term financial outlook, which Troy will touch on shortly.

The addition of Concorde to the Universal Technical Institute's family of highly regarded education brands marks our first significant move to diversify our business beyond transportation, the skilled trades and energy. The addition of health care allows us to reach a completely new demographic of students who are seeking industry-leading outcomes and meaningful career-oriented jobs that pay well, and we're excited to provide them with these solutions as we have for others throughout our long history. This expansion of our company into health care significantly increases our total addressable student base while diversifying our business. Though Concorde's course offerings differ from those of the current UTI brands, we do believe that we'll be able to recognize various operating synergies over time.

We want to be clear on the strategic fit of this important step. We view this acquisition as adding a new branch to our overall strategy as Concorde's educational offerings will allow us to provide solutions to the industry that has the highest expected job growth rate through 2030. Further, it opens doors to new adjacent opportunities to leverage industry relationships in innovative and diverse ways beyond operating schools. We'll share more on that as our plans evolve.

In summary, this acquisition takes us one step further towards accepting the responsibility to become the nation's single largest provider of skilled workers into high-demand careers as we will have over 20,000 students on our campuses and online. It opens doors to considerable adjacent opportunities in the large and dynamic health care arena. It moves the needle significantly in enhancing shareholder value by 2025 and beyond.

I'd also like to give you an update on our other important strategic initiatives that we're moving forward on as part of our growth and diversification strategy. 2021 and 2022 represent a watershed period for Universal Technical Institute as we made many advancements towards reaching our fullest potential. We closed on the acquisition of MIAT College of Technology last November. Our teams are working diligently to integrate the MIAT campuses into the UTI system.

We are working to realize both growth and cost synergies between the 2 companies by making progress on our stated plans to roll out MIAT programs across the UTI campus footprint, including our 2 new campuses. Those rollouts are scheduled to begin in 2023. With supply chain-related delays behind us, we are set to welcome our first cohort of students in Austin in the next few weeks.

Moving forward, just like the rest of our system, a new cohort will begin their coursework every 3 weeks. We're also making great progress on our new campus in Miramar, Florida, which is on schedule to open in the fourth quarter of this year. And finally, we continue to successfully expand our welding programs with 2 new additional programs launched in fiscal '21. In the current fiscal year, a new program launched at our NASCAR Tech Morrisville, North Carolina campus in January, and the latest expansion of our welding program is scheduled to launch at our Exton, Pennsylvania campus in the fourth quarter, bringing the total number of welding programs offered at the legacy UTI campuses to 9.

As we move forward and look to the future of growth opportunities, our consistent guiding principle will be our ability to have extraordinary outcomes in terms of student performance and employment, while focusing in areas that have major imbalances in supply and demand in the workforce. Our growth and diversification strategy is focused on preparing more students for in-demand careers that require highly trained professionals. We are continuing to put more and more students in position to succeed by expanding our program offerings, as well as growing our campus footprint.

We remain confident by consistently achieving high-quality outcomes for our students. Prepare with training them for in-demand jobs, we will continue to drive growth moving forward. Year-to-date we've graduated 4,400 students and we're on track to have another year with very strong overall in-field employment rates. It is our mission to provide individuals with an education for in-demand careers that require highly trained professionals and we are addressing a substantial gap in the labor market.

I will now hand the call over to Troy for an in-depth discussion of our operating performance and outlook into the second half of the fiscal year. Troy?

**Troy R. Anderson**
*Executive VP & CFO*

Thank you, Jerome. As Jerome mentioned, we delivered positive financial and operational performance for the quarter. I will spend a few minutes covering our quarterly results, and then I'll comment on the Concorde acquisition, and we'll close out by reviewing our fiscal 2022 guidance and longer-term strategic road map expectations. Second quarter total revenue was $102.1 million compared to $77.7 million from the prior year second quarter, representing a 31.4% increase. The growth reflects a 13.6% increase in average students, including MIAT, and also an approximately 16% increase in average revenue per student, which was 7,900 in the quarter. Both average student and revenue per student were better than we expected for the quarter.

Our second quarter adjusted EBITDA was $10.9 million versus $2.8 million a year ago. The year-over-year increase in adjusted EBITDA was driven by the increased revenue per student, as well as our continued focus on cost efficiencies across our operations. Adjustments for the quarter were mostly consistent with the first quarter and primarily reflects our new campus startup costs, along with acquisition and integration-related costs. A new item this quarter was lease accounting adjustments related to our facility optimization projects, including the Lisle campus purchase. These are mainly noncash adjustments other than a lease termination payment during the quarter related to our Orlando campus.

From a student metrics perspective, we continue to see growth in the front-end of the business with media inquiries up year-over-year and non-media field inquiries up significantly given the much improved high school access this year. For new student starts in the quarter, we were down 5.4% versus fiscal 2021, though we expected a lower year-over-year performance this quarter versus last quarter.

That said, the Omicron impacts in November through February, both in terms of delayed decisions by students, as well as lower conversion rates primarily due to outages with our admission staffing, were more than we expected. We also had another quarter of tough prior year comparison. As a reminder, we saw a 17% year-over-year growth in the first half of fiscal 2021, which included students who had delayed starting in fiscal 2020 due to the pandemic.

For additional context, looking at years prior to 2021 and excluding MIAT, we have started more students so far this year than we have since the first half of 2016. For the second half of the year, we expect double-digit year-over-year growth with our new campus launches, benefits from MIAT and strong high school performance. Finishing my review of our second quarter financial results, we continued to see measurable growth on our bottom line with $7.4 million of net income and adjusted net income of $6.4 million, both compared to net losses in the prior year, while diluted earnings per share was $0.11 versus a loss per share of $0.09 in the prior year period.

One item of note in our net income is the reversal of the valuation allowance. During more challenging times in 2016, UTI was required to establish a valuation allowance to offset the deferred tax assets on the balance sheet. Given the financial and operating improvements since then, we are now past the point where the valuation allowance is necessary. There was no impact on our tax rate in fiscal 2022, but we expect a higher tax rate in fiscal 2023 and beyond, more reflective of the U.S. federal tax rate plus the effective rate of the states we operate in.

From a liquidity perspective, we finished the quarter with $61.5 million in cash and cash equivalents. This reflects sequentially stronger operating cash flow and increased CapEx versus the first quarter as we continue the investments in our growth and real estate optimization initiatives. It also reflects the approximately $28 million net cash outflow from the Lisle campus purchase that was completed in February.

Purchasing the campus allows us to measurably improve EBITDA, net income and cash flow, while also giving us direct control over one of our largest campuses, where we had a significant lease commitment remaining. Subsequent to the quarter end, we completed financing for the purchase, generating a net cash inflow of approximately $20 million after retirement of the debt we assumed with the purchase and resulting in an overall net outflow of $9 million to acquire the campus.

I would now like to offer a few thoughts regarding the Concorde acquisition. I want to reiterate Jerome's comments regarding our excitement around the acquisition in having the Concorde team and their health care offerings become part of Universal Technical Institute's educational brand portfolio. Concorde will be a sizable addition to our business. In calendar 2021, they delivered approximately $180 million in revenue, representing 5% year-over-year growth, as well as $13 million in adjusted EBITDA.

The addition of Concorde's academic offerings and diverse student mix will provide us the opportunity to accelerate revenue, profitability and cash flow growth over the next several years and over the longer term. We expect the transaction to close during the first half of fiscal 2023, subject to regulatory approvals and other customary closing conditions. The purchase price for Concorde is $50 million in cash, which we expect to fund from cash on hand and represents a quite compelling enterprise value to EBITDA multiple.

There are some key differences in terms of how we are thinking about the addition of Concorde versus the MIAT acquisition. MIAT's programs, though focused across different industries and UTI's legacy transportation programs are broadly aligned with UTI's and their focus on skilled trades and generally target a similar student demographic. Thus, from a strategic perspective, the ability to cross-market the programs and broadly leverage them across the UTI campus footprint is fundamental to our acquisition rationale and strategic integration plan. Also, given MIAT's small size, integrating most of their systems and back office processes was a high priority. Simply put, MIAT represents a classic tuck-in acquisition. Conversely, we see Concorde as more of a bolt-on acquisition, and thus, our initial thinking on the integration strategy is quite different.

More specifically, the acquisition of Concorde adds a whole new brand to our family of education brands, serving as a foundational step towards expanding our presence into the sizable and growing U.S. health care sector. Therefore, from a structural and operational perspective, Concorde will operate more independently and back-office integration will likely be more limited. That said, as we get further down the path, we expect there will be some operational efficiency and integration opportunities beyond the initial critical financial, HR and IT type items, but they will be evaluated over time versus being a heavy focus on day 1.

I'll now wrap up with the updated view of our fiscal 2022 guidance and an update to our longer-term outlook taking into account the pending Concorde acquisition. For fiscal 2022, we are raising the bottom end of our revenue guidance to $410 million, thus the range is now $410 million to $420 million, reflecting the favorable first half performance and our current second half expectations. Similarly, we are raising the bottom end of our adjusted EBITDA guidance, thus we are now expecting a range of $52 million to $55 million. Our adjusted net income guidance is revised to $32 million to $35 million, and our adjusted free cash flow guidance is now $35 million to $40 million.

For new student starts, given the first half softness and our continued expectations for strong performance over the remainder of the year, we are adjusting our guidance to 8% to 12% year-over-year growth versus the previous 14% to 19%. As far as pacing for the remainder of the year, there are no major changes from my comments last quarter. As always, we will continue to evaluate our guidance expectations over the coming quarters and provide any necessary updates at the appropriate topic.

From a longer-term strategic road map perspective, assuming the successful close of the Concorde acquisition in the first half of fiscal 2023, we now estimate fiscal 2025 revenue to exceed $700 million with an adjusted EBITDA margin of approximately 20%. Versus our fiscal 2020 baseline, the estimated revenue CAGR would be approximately 20% and revenue would more than double by fiscal 2025, while adjusted EBITDA would increase by a factor of 10 by 2025. These would be truly impressive results and we are well on our way to achieving them.

Finally, consistent with our prior commentary, we expect to continue exploring incremental growth opportunities beyond our currently announced initiatives, both organic and inorganic that would enable us to exceed our current expectations as we strive to expand our role as a leading workforce solutions provider. I want to thank the UTI team and our students for another quarter of great outcomes, hard work and positive results.

I'd now like to turn the call over to Jerome for closing remarks.

**Jerome A. Grant**
*CEO & Director*

Thank you, Troy. In closing, we're pleased with the strong results we've delivered this quarter and are excited about the momentum we're taking into the back half of fiscal '22 and beyond. Our family of brands is expanding and we're thrilled to have the opportunity to impact the lives and careers of more students than ever before, while providing workforce solutions to some of the most in-demand industries at the 21st century. We'll remain acutely focused on positive student outcomes and setting our students up for meaningful careers.

We've been executing consistently against our growth and diversification strategy with several significant moves over the last year. However, the addition of Concorde is the first move to diversify our business beyond transportation, skilled trades and energy and will likely not be our last. 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. Financially, we remain well positioned to capitalize on opportunities we find to continue to execute on our growth and diversification strategy, and we'll be ready to do so.
I'd now like to turn the call over to the operator for Q&A. Operator?

# Question and Answer

**Operator**

We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Raj Sharma with B. Riley.

**Rajiv Sharma**
*B. Riley Securities, Inc., Research Division*

Congratulations on a really good quarter and also this acquisition. I have a couple of questions starting with the starts, the second half starts, how do you foresee them? And if you could kind of give some color on the current quarter. Was it purely COVID? Or was it also an impact of a very tight labor market and college enrollment has dropped in 4-year colleges for the last quarter, is -- could you give some color on how the high schoolers versus young adults were impacted and what the factors are and how that impacts you in the second half?

**Troy R. Anderson**
*Executive VP & CFO*

Sure. Yes. Thanks, Raj. This is Troy. And we feel really good about the second half of the year of -- 2 new campuses coming online, high school, you talked about. We have seen, as we commented on last quarter, significantly improved access and are looking at, we feel like a pretty strong bounce back in high school in the fourth quarter, in particular, we're actually up on high school even on a year-to-date basis on small numbers. Again, a lot of our high school coming in the fourth quarter. So look, we feel very positive double-digit in the back half of the year, the guide at 8% to 12% on a full year basis and a lot of confidence around that.

As far as Q2, again, we knew that we were -- we would see lower performance in Q2 than we saw in Q1. We were seeing some of the leading indicators from Omicron in particular, picking up in in December and into January and at the time we did our last call, first week of February, it continued through February a bit, both in terms of delayed decisions and as well as we saw some conversion rate impacts with staff availability and being able to respond to leads and inquiries in a timely fashion. So, it was just a little bit of a bit of everything in there that put some downward pressure on our expectations there, but we've seen continued front-end strength with media inquiries and again, have a lot of positivity about the back half of the year.

**Rajiv Sharma**
*B. Riley Securities, Inc., Research Division*

And then can you talk a little bit about Concorde. Their EBITDA margins currently, I know that you mentioned is 5% year-on-year growth for last year. But when you project out fiscal '25, the overall EBITDA margins you're assuming 20%. Is that an improvement we're expecting on the Concorde side? Is there any -- you didn't mention any significant cost synergies or -- on Concorde and where is this overall EBITDA improvement coming from?

**Troy R. Anderson**
*Executive VP & CFO*

Sure. Yes. There's opportunity to drive some margin improvement over the next several years. Concorde in their modeling shows that. We think there's some opportunity to even enhance that further both with growth. They have some program expansions currently underway. They've been making some investments in the last 2 years and including this year, and we'll see benefits of that over the coming years, as well as we do expect to see some cost efficiency.

But again, we're very -- they will operate very independently and maintain the majority of what they have today, and we'll be very purposeful to the extent that we look at anything that we integrate beyond some of the half to halves around financial reporting and security, IT security, some of those types of things.

So, it's a combination of, I would say, growth and just leverage on costs and maybe some additional efficiencies. Our prior UTI-only longer-term view was in excess of 20% margin. So, we don't think we'll get all the way to 20% on Concorde stand-alone, but we do think measurable improvement over current levels.

**Rajiv Sharma**
*B. Riley Securities, Inc., Research Division*

And then any sort of indications on what we should think of ongoing revenue growth for Concorde and sort of starts, any sort of color on that? How starts have been last year and what should be baked-in going forward?

**Troy R. Anderson**
*Executive VP & CFO*

Yes. I think we'll hold on getting into a lot of details on that until we get further down the path. They've again, made some investment here in the last few years driving some program expansion. It's a model not dissimilar from what we've been saying about UTI. There's opportunity for steady, consistent organic growth given there's the growth in the health care sector overall, where they're focused in the health care sector, by the way, which are growing areas and are not impacted by some of the macro factors or is heavily impacted by some of the macro factors we're seeing another nursing in particular. But -- so reasonable kind of steady growth on an organic basis and then opportunities for incremental growth from program expansions and optimizations.

**Rajiv Sharma**
*B. Riley Securities, Inc., Research Division*

Congratulations again on a very discount multiple paid for an acquisition. I'll take my questions off-line.

**Operator**

[Operator Instructions] The next question comes from Mark Hagan with Lake Street Capital Markets.

**Mark Hagen**

Mark, here in -- sitting in for Eric Martinuzzi. I know you mentioned it in your prepared remarks, but I was wondering if you had any more details you could provide around how the staffing and equipments allocating are going at the 2 new campuses in Austin and Miramar?

**Jerome A. Grant**
*CEO & Director*

I'm sorry, how the -- I missed the question.

**Troy R. Anderson**
*Executive VP & CFO*

How the campuses are progressing with Austin and Miramar.

**Jerome A. Grant**
*CEO & Director*

Well, yes, as we said, we're -- we did -- as we said last quarter, we did have a delay due to some supply chain issues with Austin, getting the campus open, which pushed it from last quarter to this quarter, which, by the way, had an effect on last quarter starts. We're ready to open in our next course cycle. And we're happy that the students that were delayed have stuck with us and are moving forward. And so going forward, we'll have starts every 3 weeks, just like the rest of the UTI system and it's full speed ahead in Austin.

As far as Miramar, Miramar continues to be on track to open in the fourth quarter. And we have high confidence in that as well. The demand we've seen down in South Florida has been strong and we're really excited what we're seeing there. We're also excited to start thinking about bringing some of the MIAT programs into both Austin and Miramar in 2023, not originally in the plans that we had out because we were doing the planning around that, but we saved space in those locations for those programs as well. So, we see 2 really successful launches there.

**Operator**

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

**Jerome A. Grant**
*CEO & Director*

Well, just briefly, everyone, thank you very much for your time and attention. This concludes our conference call for this quarter, and we look forward to speaking with you all over the next couple of days and into the next quarter. Thank you.

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