Universal Technical Institute

Universal Technical Institute fiscal Q3 2020 earnings call

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CORPORATE PARTICIPANTS

Jerome Grant - *Chief Executive Officer*

Troy Anderson - *Chief Financial Officer*

Jody Kent - *Vice President of Communications and Public*

PRESENTATION

Operator
Good day everyone and welcome to UTI's third quarter fiscal year 2020 earnings conference call. Should you need assistance please press the "*" key followed by a "0". At this time all participants are in listen only mode and after today's prepared remarks we'll open the lines for questions.

As a reminder, today's conference call is being recorded. A replay of the call will be available at www.UTI.edu or through September sixth, 2020 by dialing (412) 317-0088 or (877) 344-7529 and entering passcode 10146789. At this time, I'd like to turn the conference over to Ms. Jody Kent, Vice President of Communications and Public Affairs for Universal Technical Institute. Please go ahead.

Jody Kent
Hello, and thanks for joining us. With me today are CEO Jerome Grant and CFO Troy Anderson. During the call today we'll update you on our fiscal third quarter 2020 business highlights, our financial results, and our vision for the future. Then we will open the call for your questions. Before we begin, we must remind everyone that except for historical information, today's call may contain forward looking statements as defined by section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933.

I'll refer you to today's news release for UTI's comments on that topic. The Safe Harbor Statement in the release also applies to everything discussed during this conference call. During today's call we'll refer to adjusted operating income or loss, adjusted EBITDA, and adjusted free cash flow which are non-GAAP 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 uses adjusted operating income and loss, adjusted EBITDA, and adjusted free cash flow as performance measures internally. And those will be the figures discussed on today's call.

Starting with the third quarter of Fiscal 2019 and through Fiscal 2020 we will report 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 appropriate to exclude its impact.

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

Jerome Grant
Thank you, Jody. Good afternoon everyone and thank you all for joining us today. I want to begin today's call by thanking all our UTI team members for their heroic efforts these past months on behalf of our students and communities as we continue to manage through this

difficult environment. Despite the many pandemic driven challenges we face we continue to provide the highest quality industry aligned technical training for which we are known.

I believe that the educational offerings and credentials that UTI provides to its students are even more valuable than ever right now especially in the face of record unemployment across the nation. As the single largest provider of transportation technicians in the country, UTI's graduates service trucks that deliver groceries and essential supplies, keep EMT, police, and fire department fleets operating, repair and maintain equipment in essential industries including healthcare, energy, and manufacturing.

We are proud that UTI graduates keep America moving forward. Since we were able to resume our lab work on our campuses in late May and into July, we've graduated over 1300 students and we are seeing strong demand from employers. Job placement rates continue to be in excess of 80% for our graduates, with the 2019 grad cohort now at 82% and increasing.

Those are impressive numbers, but they don't do justice to what UTI education is delivering to our graduates. One such graduate is a gentleman by the name of Cory. Cory had two courses and four weeks left in his diesel program when the pandemic hit. He was one of the students who made the transition from our purely in person education model to a blend of online learning and hands on instruction using CDC safety guidelines.

He used a CARES Act emergency grant to help support himself and stay in school during this time and graduated from our Avondale, Arizona campus at the end of June. Now Cory told us he'd spent the last five years working in his own words in dead-end jobs going nowhere and that without UTI he'd probably still be in one of those jobs trying to make ends meet or more likely out of work altogether due to the pandemic.

He says he pursued a diesel training because he knew there would always be need for people to work on diesel trucks and equipment. And his experience is proving him right. While more than 40 million Americans have applied for unemployment in the wake of the pandemic, Cory was hired immediately upon graduation and now at 23 years old makes more than $23 an hour in his entry level job at a machinery company in Portland, Oregon.

Cory's story is not an isolated one. It speaks to the power of our programs and industry partnerships, and the work we've done to continue to provide a safe, quality education that delivers for our students. We're also continuing to move forward on a number of important strategic and operational fronts alongside the critical investments and actions we're taking to manage through the pandemic.

In addition to advancing our online portion of our new blended education model we expanded our welding program to a new campus this quarter, completed our headquarters relocation, and finished the teach out enclosure of our Norwood campus ahead of schedule. As a company we continue to invest in our students, facilities, and partnerships.

We're especially focused on supporting our students through this period of uncertainty and economic hardship. We work closely with students whose circumstances have become unpredictable and encourage them to take leaves of absences, or LOAs, rather than simply withdrawing. Particularly given the many job opportunities that are available for our graduates now and in the nation's recovery.

We've also been actively distributing CARES Act funding created through the Higher Education

Relief Fund to provide much needed direct financial aid to our students. Ensuring that our students have the support they need to stay in school is paramount, and these emergency grants have and will continue to cover living and other expenses for those facing financial difficulties and challenges during the disruption of the health crisis.

We're grateful to the U.S. Congress and the Department of Education for supporting our students in their time of need. And we appreciate the opportunity to facilitate this process. To date we've delivered over $13.6 million directly to more than 8700 students in the program and outreach continues. In addition, we recognize the acute need for many students to have the adequate technology infrastructure for the online portion of our blended learning model.

To make the transition easier and more seamless we're now providing laptops to all incoming students and those students with more than four course cycles remaining. All eligible students should have one of these devices by the end of August and we expect to continue to distribute them free of charge to new students going forward.

In total, we've earmarked almost $23 million of UTI's CARES fund allocation to be delivered directly to students in both cash and equipment. We also continue to invest in and involve our new blended learning education model to better serve our students. The feedback's been very positive, and now that all of our campuses are open for students to complete their hands-on labs, we're seeing high levels of engagement.

As of the end of July over 90% of the enrolled students are active, and this number is increasing with each course cycle. 40% of those students have now fully caught up on their hands-on labs with another 47% in progress, the majority of those needing just one or two more labs to catch up. This leaves 13% still pending in terms of in person lab engagement.

While we're very encouraged by this progress, we're finding that a number of our students are balancing their desire to complete their education with COVID-19 safety concerns, work demands, and other personal matters. These students are setting their own pace for their catch-up process which is elongating the programs and requires us to revise the recognition of their tuition revenue accordingly.

We've accelerated the transformation of our marketing and admissions program during the pandemic, quickly moving to shift our admissions model which prior to COVID-19 was almost exclusively face to face and we're now connecting with students and parents through online meetings, virtual tours, and other virtual events. Our admissions reps have told us that there's a substantial increase in the number of people that want to talk and meet with us virtually.

With respect to marketing, we're continuing to invest aggressively in our digital and social platforms and are seeing improved effectiveness in productivity as well as significant savings. Media inquiries are up double digits year on year, and we saw accelerating trends across the quarter and through July.

In times of economic hardship, we have found that the interest and need for skilled technicians across the transportation industry and other markets for our students remains strong. One sign of this is that our fourth quarter enrollments so far are running above our pre-pandemic targets for the period and right now the enrollments for 2021 are accelerating.

However, despite the strong interest we are seeing I do want to remind investors and analysts that this recessionary environment which does generally help our business is a very different setting than we saw in 2008 and 2009, the Great Recession. This pandemic induced recession will provide us with many opportunities, but there also numerous unique challenges that our students, instructors, and company must navigate until we're on the other side of this crisis.

These challenges are rate limiters in the short term but most of which will be turned into positives going forward. Results for the third quarter reflect the mixture of cross currents I just summarized: strong and growing interest in our programs combined with the challenges of adapting and shifting our educational delivery model in this environment.

Let me briefly touch on a few high-level results of the quarter and Troy can cover these in more detail in his prepared remarks. New student starts were up 8.4% year over year, and contracts for the quarter grew 20% year over year as we experienced acceleration through the quarter in these metrics. July results indicate that these trends are continuing into the fourth quarter.

However, our show rate in the quarter did decline year over year. As we have previously noted LOAs were well above historical levels following the need to suspend in person classes at the end of Q2. As a result, total revenues decreased 31.3% versus the prior year quarter to $54.5 million. Our net loss was $13.3 million and adjusted EBITDA was an $8.8 million loss.

Now it's critical to note our results for the quarter, particularly revenue, are subject to important timing effects as we managed through the period with our students. The resumption of labs later in the third quarter, variability in student progression through the catch-up process, and revised graduation dates all affect when we can recognize revenue. But it's important to note that this is merely a shift in when this revenue gets recognized, and not a loss of opportunity.

Case in point: we deferred approximately $11 million in revenue out of Q3 to better align the recognition of revenue with when students will complete the curriculum. This revenue will be fully realized over the coming quarters. As I've indicated already our focus is to support students and be flexible as possible through the period. As a result of this approach, we believe we mitigated a significant number of student withdraws that would have resulted from the pandemic. This posture will ultimately allow the vast majority of the students enrolled to complete their education and go on to successful careers in many essential industries we serve.

Despite all the changes, challenges, and actions we've taken during this unprecedented time period we continue to move forward on the initiatives and strategic actions we had in place and were considering prior to COVID-19. The strategic direction we previously outlined in conjunction with our successful capital raise in February remains in place. And we continue to pursue the growth and diversification initiatives that form the foundation of the strategy.

These include program expansions and extensions where appropriate, new campus locations as needed, and selective acquisitions when they meet our financial criteria and demonstrate a clear fit to our business. During the quarter we successfully launched our new welding program at our Houston campus and are on track to open our next location in Long Beach Campus at this month.

Interest in these programs is gaining momentum, and we're excited to expand this program to our Lisle, Illinois campus just outside of Chicago in early calendar year 2021. We also recently announced two additions to our leadership team in support of the company's work to accelerate its growth. Bart Fesperman joined the company in a newly created role of Senior Vice President Chief Commercial Officer, while Sonia Mason has been named our Senior Vice President and Chief Human Resource Officer.

These additions help round out the new and dynamic leadership team that we've built at UTI over the past year, putting in place the organizational strength to help us deliver on UTI's significant potential. We're also evaluating cost efficiency opportunities in the future as we look to adopt and advance changes that we've already made to create the blended learning environment. This management team's excited about the bright future and the opportunities ahead but we're also focused and determined to support our students, our team members, and their families as we all manage through these challenging times.

I'd now like to turn the call over to Troy for a deeper discussion of our financials and student metrics, after which I'll return to provide some closing thoughts. Troy.

Troy Anderson
Thank you, Jerome. Before I get into the details of our results for the quarter let me begin with a review of the five key variables related to COVID-19 that can impact our business and that we discussed on our call 90 days ago. The five variables are timing of students resuming hands on labs at our campuses, timing of students returning from LOAs, engagement of students in the online curriculum, potentially cost recoveries from the CARES Act, and post-COVID-19 student demand.

First, the timing of resuming hands on labs at our campuses. To safely open our campuses, we modified the lab designs to meet the health and safety guidelines as established by the CDC to state and local jurisdictions. Throughout May and June, we resumed labs at all of our campuses with the exception of our Bloomfield, New Jersey campus which was brought back online on July first.

As of the end of July, we had 87% of our active students caught up on their labs, were in process of catching up, and we are actively working with the remaining 13% who are still only participating in the online portion of the curriculum. Keep in mind that getting students to return to on campus lab work is a process that takes several items into account.

For example, almost half our students relocate to their respective campuses. Less travel and student housing are important factors for these students. Also, as Jerome mentioned, even after students return to campus, we are seeing variability in their pace of completing their catch-up labs.

Second, the timing of students returning from LOAs. Approximately 91% of UTI students are active as of the end of July, versus 75% in early May at the time of our last earnings call. For comparison, this time last year 95% of our students were active. So, we're within a few points of a more normalized LOA rate. This metric has been trending positively with each sequential course cycle.

With remaining students on LOA, most are currently scheduled to return in August but throughout the past few months we have seen students shift their return dates as they and their families reassess their individual situations.

The third metric we are following is a continued engagement of students in the online curriculum. In late March we transitioned over 8,000 students into our online curriculum. During the quarter as students returned from LOAs most of them initially returned into the online curriculum before resuming on campus labs. Additionally, most of the 1,800 new students who started during the quarter also started directly into our online curricula prior to beginning at first labs at our campuses.

Fourth, the potential cost recovery opportunity (inaudible) the CARES Act and Higher Education Emergency Relief Funds, or HEERF. In the third quarter we incurred $5.9 million of costs that are eligible for recovery with the HEERF funds. We intend to allocate the remaining unused funds to offset additional costs and investments needed to support our students completing their education, most of which we expect will be incurred in the fourth quarter of Fiscal 2020.

Lastly, Q4 and post-COVID-19 student demand. As demonstrated by the items I just covered our business was certainly affected by the disruption caused by COVID-19 in the court. However, we believe this crisis also represents an opportunity for us to meet what we expect to be increased demand by incoming students for our technical training programs.

We see evidence of this demand in our media leads, which show double digit year over year growth that accelerated throughout the quarter and in July, and we're looking at our enrollments which for Q4 now exceed our pre-COVID-19 goal and for FY21 are already pacing ahead of what we saw at this time last year. Albeit we're still very early in the process.

Now let me cover the specifics of our third quarter student metrics and financial results. New student starts were 1,824 in the third quarter and increased 8.4% year over year, aided by an additional start versus the prior year quarter. The growth was driven equally by military and high school channels. Interesting note on military, with pandemic quarantines and our transition to virtual interactions we have better access to military personnel and success converting them to starts.

We did see a year-over-year decline in adult starts during the quarter for the first time since FY18, which reflected pandemic concerns and delayed decisions due to federal unemployment stimulus. Scheduled enrollments in Q3 were 20.2% higher than Q3 last year and were partially offset by a show rate decline of 400 base points in the quarter. The lower show rate along with higher postponements throughout the quarter reflected overall mixed emotions regarding the COVID-19 situation.

We put even more emphasis on student engagement throughout all of the steps of the enrollment show process, to ensure students and their families have all the information and support they need to begin their education at UTI. However, we will likely continue seeing show rate variability and higher postponements in the near term as a result of COVID-19.

Average students for the quarter were down 8.3% year over year, however we ended the third quarter with 9,774 active students, an increase of 3.3% versus the prior year quarter and approximately 2,400 more active students than at the end of the second quarter which shows the significant positive movement on LOA returns, much of which occurred in June.

Active students have sent increase to approximately 9,900 students at the end of July with another 100 students on LOA who only need to complete their remaining hands on labs to graduate from the program. There are currently approximately 800 other students on LOA versus 500 at the same time last year. Again, a much more favorable compare versus 90 days ago.

Revenue for the quarter was $54.5 million, a $24.6 million or 31.1% decrease from the prior year quarter. The year over year variance was driven by roughly $13 million for the decrease in the average student population due primarily to the LOAs and lower revenue per student in the quarter. The remaining variance is driven primarily by revenue we deferred due to three timing variables.

When students resume their on campus labs, student pacing through the online curriculum and lab catch up process once they return, students who are scheduled to graduate in late March through September and have delayed graduation dates as a result of the campus closures and the catch up process upon reopening. As a reminder, we recognize revenue ratably over the term of our programs, thus any extension of the time needed to complete the program results in us spreading the revenue over a longer period.

In total we deferred approximately $11 million from Q3 for students who have extended their programs for reasons above. As a result, we are now recognizing revenue separately based upon the completion of the online portion of the curriculum and the lab portion. I want to reemphasize the revenue impacts we saw on the quarter are primarily related to the timing of when we recognize revenue for students, not lost revenue.

Operating expenses in the quarter decreased by 14.1% versus the prior year quarter to $68.3 million. Education services expenses were down 24.2% year over year while SG&A was down 2.4% year over year. Importantly I'll also note the quarter over quarter decrease of 18% of total operating expenses, which increases 20% when you exclude occupancy costs that are largely fixed. This reflects significant reductions in labor costs, variable campus expenses, contract labor, travel, and other costs.

This also includes a decrease in advertising costs of 2.5 million sequentially and 400,000 year over year largely from our shift to digital and lower tv spend. This decline is impressive considering the significant increase in media driven inquiries and illustrates the improved effectiveness of our digital marketing strategy.

On the labor side, in April we furloughed approximately 280 employees largely in our campus operation. And we gradually brought them back during the remained of the quarter in July as we resumed in person labs at our campuses and overall student activity increased. We ended the quarter with approximately 1,590 total employees, a decrease of 90 employees through June of last year and 55 from the end of the last quarter.

As I mentioned earlier and you'll see in our disclosures, we incurred approximately $5.9 million in COVID-19 related expenses from labor costs to create and enhance our online curriculum and to transition back to CDC compliant campus labs. And also, for software and computer equipment, masks, plexiglass dividers, disinfecting supplies and cleaning services, and other related expenses to ensure safety and to implement social distancing in our campuses.

We recorded a credit to offset these expenses and a related receivable for the institutional HEERF funds granted under the CARES Act. We plan to draw these funds through the Department of Education in the fourth quarter.

Net loss for Q3 was $13.3 million, translating to basic and diluted EPS loss of 45 cents. We had 32.6 million common shares outstanding as of the end of the quarter, essentially unchanged from the last quarter. Q3 net loss compared to a net loss of .4 million in the prior year quarter.

I'll also provide a quick update on the income tax benefit of approximately $11 million that we reported last quarter, resulting from net operating loss carry back revisions within the CARES

Act. We've already applied for the approximately $4 million refund associated with the 2018 NOL carry backs and expect to receive it in the fourth quarter.

Given recent guidance from the IRS regarding the processing of the 2019 NOL carry backs, we now expect to receive the remaining $7 million in refunds in Fiscal 2021.

Adjusted operating loss for the quarter was $12.3 million compared to a loss of .3 million in the prior year quarter. Adjusted EBITDA loss of $8.8 million of Q3 compared to adjusted EBITDA of $4.5 million in the prior year quarter. Both the FY20 and FY19 figures reflect adjustments for cost associated with the Norwood Campus closure.

We maintained our strong balance sheet with available liquidity of $91.5 million as of June 30, which includes $60 million of cash and cash equivalence and $31.5 million of short-term health immaturity securities. Our diligence in managing our cash utilization in the quarter resulted in a total cash use of approximately $27 million, which correlates to the lower end of the scenario we outlined in our last earnings call.

Operating cash used year to date through June was $10.1 million and compares to operating cash used at $7.1 million for the prior year period. Adjusted free cash flow reflects a use of $16.2 million year to date through the third quarter, an increase of $9 million versus the prior year. Year to date CapEx was $7.2 million, up $1.9 million versus the prior year primarily due to our incremental welding program investments.

Now let me briefly speak to our real estate footprint optimization efforts. As it pertains to the third quarter, in our adjusted results we already see the benefits of the Norwood closure which is now complete. But we will begin seeing them in our operative results in the fourth quarter. We expect to save approximately $1.3 million in annual cost savings from our headquarters relocation and downsizing that was successfully completed in June.

We are in active discussions with various landlords as we seek longer term opportunities for consolidation and right sizing across our campus footprint. We are close to a final deal on one of our remaining legacy campuses for a major downsizing and rate reduction and have begun planning and negotiations on others that in total could yield significant EBITDA benefits, starting in FY22 with some potential benefit in FY21.

After the major setbacks in the macro COVID-19 environment, we are confident we can continue making progress normalizing arranged student LOAs and working through the timing dynamics of student lab catch ups and student progression through the curriculum over the coming quarters. But these factors are not fully in our control. While we still are not in a position to give definitive guidance, directionally we will likely see revenue decline on a year over year basis for the full year of Fiscal 2020.

That said, we will continue working to minimize impacts on profitability and cash flow as we manage through the situations. Again, these are only directional estimates and should not be considered guidance.

Finally, our team is highly focused on student retention and curriculum progression, facilitating safe operations on our campuses and delivering a quality education along with positive outcomes for our students. While we are navigating through the timing dynamics we have outlined in the near term, the COVID-19 disruption has also given us the opportunity to build a more efficient educational platform that will benefit our students and support our ability to execute our long term growth agenda.

I'd like to take a moment to thank all of our UTI employees for their hard work and resilience. Our team's ability to effectively navigate this period of uncertainty is a testament to their dedication to our students and to the long-term objectives of our organization.

With that, I'll turn the call back over to Jerome.

Jerome Grant
Thank you, Troy. To summarize, the outlook for our business is bright and we're seeing significant growing interest in our highly valued programs across the country. Yet, as I mentioned some caution is warranted as the health emergency and economic recession we're battling our way through is very unusual. It doesn't look much like past economic downturns. Adjusting to the COVID-19 environment and managing through its ups and downs has and will continue to test all of us.

Yet we are continuing to move our business model forward. We're making key investments in our core propositions, our programs, and our talent. We're not in a bunker nor are we retreating from the opportunity that offers the future period returns. We're continuing to engage our prospective students via new pathways and methods, and they are responding. We're continuing to innovate with respect to our educational delivery models in ways that support us today but also open new opportunities in the future.

We are adapting every day to the changes occurring in the market and business environment and have demonstrated that we can operate effectively given the present turbulence. We're proud that these adaptations and improvements that we have made and will make have made a strong UTI today and a UTI better positioned for the future. Our business remains resilient. We continue to make meaningful improvements. Our financial position is solid and clearly superior to many of our contemporaries.

Finally, the academic and employment proposition we offer is more valuable than ever to students, potential employers, and industry partners. I want to thank you all for your time and attention this afternoon and I'll now turn the call over to the Operator for Q and A. Operator.

QUESTION AND ANSWER

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

The first question will come from Eric Martinuzzi of Lake Street.

Eric Martinuzzi
Gentlemen I wanted to dive into the revenue for the June quarter. And I see specifically you call out the primary driver of the, you know, the decrease here being the higher number of students on Leave of Absence due to COVID-19 crisis and then the timing of students progressing through the lab make up process. You know, as we kind of jump back in time to three months

ago there was an expectation, you know, and maybe not an expectation or a guidance but just a scenario that you had laid out that said you know what? Maybe we can be as good as 2019.

Obviously, that's no longer in the cards. And I'm just wondering at what point in from 90 days ago through to the end of the quarter did you guys come to that realization and what were the primary drivers?

Troy Anderson
Yeah thanks for your question Eric. I'll point to a few things. I mean, relative to that scenario I would say the LOAs, you know, I pointed out in my comments we saw the most progression on that in the month of June. So that was, you know, on the back end of the quarter. We did start opening our campuses, you know, throughout May and June. But several of those were late in May and in the beginning of June. So, there was a timing element I would attribute to that.

And then really the primary element being the revisiting of the revenue recognition in light of the student progression through the labs. Some students, you know, remaining in the online curriculum and delaying coming in for labs. Other students only doing labs and not doing the online curriculum while they get caught up. So there were a number of different dynamics that we saw really that we didn't have good insight until we frankly were rolling up the quarter and had gotten far enough along in the process with all of our campuses, you know, that we had good data on that to revisit.

So that $11 million deferral which again will be recognized as those students complete their lab work over Q4, some will go into Q1 depending upon again the individual students' preferences. But that would be obviously the biggest piece of the driver.

Eric Martinuzzi
Okay. And then given that we've got all the campuses open now shifting from Q3 into Q4, is it an oversimplification on my part projecting the revenue for the year to just take that shortfall in Q3 and take down my full year estimate by the amount of that shortfall?

Troy Anderson
Well, we're again we're not in a position to give guidance. But clearly progressing from Q3 into Q4 we talked about the progress on the LOAs. We got the engagement with the students on the labs. We have a big start quarter in Q4. More than half our starts as you know arrive in the fourth quarter. That brings a revenue uplift over Q3. So, there are a number of variables we would, you know, obviously we'll have to see how the quarter plays out. But we would not expect a deferral like we saw in Q3. Although we could still have some residual deferral.

So, when you layer all those things together and clearly Q4 should look better than Q3, but I can't really steer you specifically on what a number would be.

Eric Martinuzzi
Okay. And then last question for me. It sounds like there was a moment during the rolling up of the numbers where you guys had to make a management decision about revenue recognition. Help me understand the puts and takes there on this $11 million deferral.

Troy Anderson
Yeah it really breaks down into three pieces, Eric. There's and I tried to call that out in my comments. They are, you know, some students have not yet engaged in a make-up lab. So they're still an active student. They're progressing in the online curriculum, but their campus has

now been opened for, you know, one, two, you know going on three months for some of the early ones. And they have not yet come in for a lab. So those students though essentially what we've done is split the revenue, you know, 50 50 for, you know, on average for a student that we'll recognize revenue based on them progressing in the online curriculum but until they come in for their lab we will not recognize the other 50%.

We also have students who are in the make-up labs, but they've paused on the online curriculum while they're doing their make-up labs. Again, now we're talking about half the curriculum not a full earning student. And then we have students who are delaying graduations and we've had to spread revenue out over a longer period of time associated with those students because their graduation date passed while their campus was closed or passed, they can't make the date because of the make-up process.

So, all three of those cohorts, you know, frankly it's kind of roughly a third, a third, and a third of that $11 million and they all have a little bit of a different dynamic associated with them. But broadly speaking as we take in the revenue and bifurcated it between the lab work versus the online curriculum and try to align the timing accordingly.

Eric Martinuzzi
Okay. Understand. Thanks for taking the question.

Troy Anderson
Thank you.

Operator
The next question comes from Alex Paris of Barrington Research.

Alex Paris
Hi guys, thanks for taking my questions.

Jerome Grant
Sure.

Alex Paris
So, first off, I'm happy to see all the campuses opening again with the last one opening early last month. Just looking at your national campus network, you obviously have a significant exposure in California, Arizona, Texas, and Florida. I'm wondering with the resurging Coronavirus in those states have there been any reversals on social distancing rules or things affecting campus operations first off.

Jerome Grant
No, there haven't. Just to be straightforward. You know, in a significant portion of our campuses when during the opening period we were determined to be an essential service in the state and therefore that essential service status serves us as any other, you know, minor close downs may happen through the process.

But we haven't had any inquiries to that effect, and we continue to move forward.

Alex Paris
And then along those same lines, you know, a typical class at UTI runs with a 27 to one student teacher ratio. And obviously, you know, due to CDC recommendations and that sort of thing

you're down to 10 to one which is really nine to one I guess. Are there some states where that has been expanded or is it pretty much just been nine to one everywhere?

Jerome Grant
That was a great question Alex. Actually, revised CDC guidelines were less focused on the, you know, 10 people in a room and more focused on social distancing. And so, we have expanded our densities into the teens on most of our campuses by using larger facilities, spreading out the equipment, use of plexiglass between workstations, and things along those lines.

So, we really don't have any campuses only operating at nine to one anymore. What we're really have been focusing on is how can we best utilize the space to increase the class density in order to accelerate the catch-up period and also being able to accommodate the large fourth quarter start numbers that we have traditionally.

Alex Paris
And then moving on, your curriculum is delivered 50 50. 50% classroom, 50% labs. Obviously, you had said previously that that the classroom portion 50% is today 50% online, 50% in the classroom. Is that the plan going forward even once we have a vaccine and things?

Jerome Grant
Let me put a little alteration on that. Yeah, our core auto diesel curriculum is about 50% classroom, student in a classroom with their colleagues and instructor either demonstrating something or helping them understand concepts. And the other 50% has always been and continues to be hands on in the labs working on, you know, working at a workstation doing their mastery skills.

The online portion of our curriculum is the entire classroom experience. Not 50% of the classroom experience. And we currently have no plans to return to in classroom experience with that 50%. All the students who are enrolled now and all the students as we move forward will be experiencing the 50% of the curriculum, the classroom, online. But they will get every bit of the hands on they always got in our labs under CDC compliant standards.

And so, does that address your question?

Alex Paris
Yeah absolutely. And so then that implies a significant expansion in your capacity throughout your national campus network going forward.

Jerome Grant
Well, you know, in the short term while we're working through the pandemic pre-vaccinations and all the rest of that, it's giving us the opportunity to spread our labs our into spaces that previously were classrooms. Of course, not our live engine labs but other labs that students have we have grabbed space that previously was classroom space so that we could spread the students out and get our class densities up.

So, in the short term while we continue to work through social distancing and work through the crisis, most of the excess space is being brought together in that (inaudible). But I think, you know, down the line as the world normalizes, you're onto an opportunity.

Alex Paris
Absolutely. And then a last question, I guess. You've said in the past that the incremental contribution margin for an additional student is in excess of 60%, maybe 60 to 70% you had said in the past. Under this new blended model going forward should we assume that once we get back to normal the incremental contribution market would be higher?

Troy Anderson
Yeah, we haven't, this is Troy. We haven't gone through I would say what that long-term model, you know, fully realized as Jerome was just talking about there. But, you know, our thinking would be that there's opportunities in it to drive, you know, better margin opportunity, you know, as we go forward, you know, with the (inaudible) clearly, you know, instructor efficiency would be component to that but real estate optimization which is a little bit more of something that takes time to work through.

But certainly there should be opportunities as we go forward to bolster that margin profile.

Alex Paris
Great. Well thanks for the additional color. I appreciate it.

Troy Anderson
Thank you, Alex.

Operator
The next question will come from Austin Moldow of Canaccord.

Austin Moldow
Hi, thanks for taking my questions. In previous quarters you've talked about different channels in which you attract new students. Can you give a little update on those and can you also speak specifically to the high school channel and how that's being impacted by a school year that basically ended in the midst of the pandemic?

Jerome Grant
Yeah, that's a great question Austin. Thanks for asking. Number one, as far as 2020 is concerned, you know, the lion's share of the enrollment and recruitment for the high school actually from the high school channel actually completes in the month of February and March. By then as you probably can imagine students have decided what they're going to do in the next fall and they've moved on to other things.

And so, the number of enrollments we get out of the high school channel after March fifteenth is actually quite small. Enrollments for that year. And so, our ratios this year are relatively the same as they were. As we're talking about the increased enrollment we've seen since the pandemic hit, it is more heavily weighted to the adult population as defined by people who are a year or two out of high school, into their mid-20s. Which makes a lot of sense given the unemployment rate for that population is quite high.

And so, you know, a lot of the interest we've seen in March, April, and May is coming out of what we would call the adult population. That said, we've got a very solid plan going into this next school year assuming that most schools will be virtual for some time to come. And we've really pivoted the way we're looking at our presentations in high schools, virtual presentations, et cetera. We've begun our outreach to counselors and department chairs who are looking for content to bring into their virtual environment. And we believe that we're going to be able to operate although virtually at the same scale we were operating in the past.

Austin Moldow
Got it. That's really helpful. My second question is how much was spent on advertising and do you think the pandemic will permanently change how you spend on ads across the channels or are things expected to bounce back to the same tv, digital, other split you had before?

Jerome Grant
Yeah. So, in quarter we spent about $9 million on advertising. Now what the pandemic is change our mix, right? Sports went off of tv, all the affinity channels were playing reruns from years and years and years ago and so we took a significant portion of the investment we had planned to make into tv out of the channel. We're starting to bring that back into the channel as live sports has begun to come back in.

But we've also sort of altered our mix around social media. With an unemployment rate as high as it is for 18 to 24-year-old males, one of the places you're seeing a lot of those people hanging out is in social media. In Instagram, Snapchat, TikTok, Facebook. And so, we've seen quite an uptick through the social media channels for that demographic.

I think our ratios will somewhat normalize but some of that really has to do with the sustainability of live programming over the next number of months.

Austin Moldow
Okay. Thanks very much for taking my questions.

Jerome Grant
Sure.

Troy Anderson
Thanks Austin.

Jerome Grant
Thanks.

Operator
The next question will be from Raj Sharma of B. Riley.

Raj Sharma
Hi, good afternoon guys. Thanks for taking my questions.

Troy Anderson
Hi Raj.

Jerome Grant
Hi Raj.

Raj Sharma

So, well my first question is on the deferment of revenue. I just wanted to understand. So part of this is the displaced revenue, the other part is you--the displaced revenues on the LOAs, the other part is the revenue that's being deferred.

What, I mean do you think you could recognize--and all of this is not lost revenue I understand, and you would recover it. What are the chances that you recover all of it by Q1?

Troy Anderson
Yeah, Raj, this is Troy. It's a good question. And the dynamics are, you know, different again by there's kind of three distinct cohorts within there. I would expect most of that to have, you know, completed by Q1. You know, the students essentially as they do their retake, you know, on their lab, or do their catch ups on their labs, you know, we'll recognize that 50% of revenue as being deferred.

There's, you know, a third of that again is a group of students right now who have not engaged. In the on-campus labs. They're active in the online curriculum, they're progressing in the online curriculum. You know, we have obviously regular interaction with them from the student instructor perspective. And that's a group that, you know, they have to get comfortable, you know, being in the environment. You know, coming into the group setting, et cetera. And that's probably the tail end of the group.

The group that's just a delayed graduation, you know, is likely mostly in Q4. You know, maybe some of that trickles into Q1 depending upon some of the campus timing. And then the group that is just, you know, they're only--they're either pacing through the labs differently than we designed the process meaning they're taking longer. They couldn't get a lab at the time they wanted. They didn't want to, you know, they wanted to take a session off. You know that type of thing. Or they're only doing the lab portion of the curriculum, they stopped doing the online until they get caught up with the labs.

You know, again, we're only getting half revenue associated with those. Again, I would expect most of that to come in Q4 but some to go to Q1. What's important is also displacing the Q4 revenue you would have expected. Because that student is, you know, doing that lab instead of doing other curriculum, right? For those particular students and same with the online students. So it's not necessarily additive, it sort of pushes all our revenue to the right of that.

Raj Sharma
So it is fair to assume that you would let's say recognize 90% or most of it in Q4 and some of it would be pushed out because they couldn't graduate on time or because they couldn't finish?

Troy Anderson
I think 90's probably high. Yeah. I would say 90's probably high. But you know, more than 50%.

Raj Sharma
Okay. And then I want to understand how much of--so now the campuses are open, you have social distancing in place. You have LOAs trending in the right direction. Most of them are active. How much of this timing is sort of reticence on the part of the students versus your ability to get them through? If they were all willing today would you be able to get them through class and, you know, sort of can you help me on that? We could use some color on that. What is going on and does it relate? Clearly, it's COVID impact but what is causing the students to delay once they're active?

Jerome Grant
Sure. Let me, you know, you asked two questions there. Whether, you know, is the lion's share of the delay due to reticence the answer to that is yes. Right? I think we're all reading day in and day out about college students returning to campuses and how parents are feeling about that and how the environment is affecting it especially with sort of the roller coaster of the lockdown having cases at a certain level then spiking when people especially young people are out on their own doing a lot of things.

And now it's in many of these states it's getting to a sort of a new normal level of where they are. So reticence really does fit very largely into the factor of a student's engagement whether coming off of the online platform into the labs or their initial show rate for starting their classes in this time period. So that's absolutely the case.

Your second question was if everybody wanted to catch up could we make that happen. The answer to us is yes. If everybody wanted to catch up, we absolutely could make that happen. Yet the challenge around that is as we told you in our last report, we had our labs open and continue to have them open from seven in the morning until midnight to do the catch-up work. And that continues on some of our locations where catch up is still going on.

The other issue associated with that also has to do with the students' lives. When they, you know, I have a job that goes from three to 11 so I must be in the morning. Or I have a job that goes from seven until three so I must be in the afternoon. And so, you know, thinking that we could utilize our full capacity to satisfy everyone is a bit of an overstatement based on students' ability to schedule when they can come in versus when we have availability for them to come in.

Raj Sharma
Got it. My next question is on the show rates. And I see that they worsened. They worsened 400 basis points. Do you expect them to kind of stay like this through Q4?

Troy Anderson
Yeah Raj, thanks. This is Troy. We will see some pressure on show rate, you know, in Q4. We've seen it bad, you know, in July on the start we had in July. We have another start coming up here this Monday. You know, they're already three weeks and certainly the big ones really are coming up here in August and September. And it's the same conversation as the return to lab and the LOA.

Raj Sharma
Right. Right.

Troy Anderson
It's the same, exact same conversation. Do I start or do I wait? And, you know, it's frankly pretty easy to just wait. You know, there's no penalty, there's no restock fee. You know, we're happy to slot you in the next spot. So, we've seen both students who, I mentioned postponements as well. So, the only difference between a, you know, someone who doesn't show and a postponement is the postponement actually called us ahead of time and said hey I want to change my start date. The person who doesn't show, you know, just didn't tell us ahead of time and we're still trying to work with them to see if we can get them back into another spot down the road.

So, you know, we see an uptick in all of those and again they're all related to the same variables.

Jerome Grant
Yeah, and a couple of, well I'll give you a couple half-full notions on this. Number one, you know, we're working day in and day out with the students who are in the glide path to come to school to look for flexible ways for them to be able to engage both, you know, digitally from a distance standpoint and come in and do the labs at a much more flexible fashion than we've been able to do in the past.

That's going to bring more people in. And these are learning experiences we have through a pandemic about how we need to engage with the students to make them comfortable, fit their timeframes, et cetera. That's one thing that I think is helping us in the fourth quarter as we move forward.

The second thing that's helping us in the fourth quarter which I mentioned in my speech is that we're outpacing our expectations for enrollments for the fourth quarter, and we're continuing to write enrollments for the fourth quarter. Adult students who are unemployed can start pretty quickly. And so, you know, the mitigating factors to the erosion of the show rate are, you know, the cup is filling more full with more enrollments and we've learned a lot to work more flexibly with students about engagement.

Raj Sharma
Got it. Got it. Thank you. I'll get offline.

Troy Anderson
Thanks Raj.

Operator
This concludes our question and answer session. I'll turn the call back over to Mr. Jerome Grant if there's any closing remarks.

CONCLUSION

Jerome Grant
Well I don't have any closing remarks. I gave them to you right before that. I want to thank you all for your time. As Troy and I have always made it very clear to our partners in the investment community and analysts, you know, our doors and phones are open for conversations. We look forward to discussing this more deeply with you. We once again want to reiterate that, you know, we see a bright and growing future here. And we thank you all for the time you've taken and your support of UTI.

Thanks, and have a great afternoon.

Troy Anderson
Thank you.

Operator
The conference is now concluded. Thank you all for attending today's presentation. You may now disconnect your lines. Have a great day.