Universal Technical Institute Inc.

Fiscal Q4 2020 Earnings Conference Call

Wednesday, November 18, 2020, 4:30 PM Eastern

CORPORATE PARTICIPANTS

Jerome Grant - *Chief Executive Officer*

Troy Anderson - *Executive Vice President and Chief Financial Officer*

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

PRESENTATION

Operator
Good afternoon and welcome to the Universal Technical Institute Fiscal Fourth Quarter 2020 Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*", then "1" on your telephone keypad, to withdraw your question, please press "*", then "2."

As a reminder, this event is being recorded and a replay of the call will be available at www.uti.edu or through December 2, 2020, by dialing 877-344-7529 or 412-317-0088 and entering pass code 10149609.

I would now like to turn the conference over to Ms. Jody Kent, Vice President of Communications and Public Affairs. Please go ahead.

Jody Kent
Good afternoon and thank you 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 fourth quarter 2020 business highlights, our financial results, and our vision for the future, and then we will open the call for your questions.

Before we begin, we want to remind everyone that today's call will contain forward-looking statements within the meaning of the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Please carefully review today's press release for additional information and important disclosures about forward-looking statements. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes 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 operating income or loss, adjusted EBITDA, and adjusted free cash flow, which are non-GAAP financial measures. Adjusted operating income or loss is income or loss from operations, adjusted for items that affect trends and underlying performance from year-to-year and are not considered normal recurring cash operating expenses.

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

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

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

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

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

Jerome Grant
Thank you. Jody. Good afternoon, everyone, and thank you all for joining us today. Before I jump in, please indulge me, while I once again share heartfelt debt of gratitude to the UTI team who in 2020 represented the very best in human spirit and dedication, while helping our institution, our students, our industry partners navigate some of the most challenging conditions imaginable. Thank you all for your dedication, hard work and passion.

This afternoon, I'll be focusing my comments in three areas, after which Troy will briefly review for you some of the highlights and key takeaways from our fourth quarter and full-year results. Troy will then provide some guidance on a handful of key metrics for 2021.

The three areas I'd like to focus on in the next few minutes are outcomes, accomplishments, and our vision for the future of UTI. Outcomes are metrics and standards that have truly set us apart in the industry for the past five decades, continue to underscore our unique value proposition today, and will be critical to the success of our business strategies going forward.

With respect to accomplishments, I'll share with you some thoughts and examples of the effectiveness and importance of the credentials our students earn, as well as innovations we put into place to help our students succeed more efficiently and effectively in the workforce. And finally, I'd like to share with you our vision for the future of UTI by updating you on our growth and diversification plans.

Let me start with outcomes. At the very heart of our operating model and UTI's unique value proposition is the relentless focus on improving the employment and career outcomes for our current students and graduates. This starts with ensuring that they succeed in their vocational curriculum and successfully graduate.

Our keen eye kept on the number of students who persist in their education and graduate is one of the ways which we prove our value every day. Nationally, just 40% of college students earn a certificate or degree within six years of beginning their post-secondary studies, yet at UTI nearly 70% of our students graduate within two years. This is in no small part due to the investment our faculty and support teams make in the success of our students.

We work closely and individually with them to work through the many challenges that life brings so that they can stay focused on their passion, finish their studies, and go on to rewarding careers. One such recent example is Jonathan Pagen. After graduating from high school, Jonathan joined the U.S. Army, where he served four years as a mechanic. Following his heart, after leaving the military he enrolled in a local community college to pursue a degree in electronics engineering. Jonathan soon found that there was, in his word, just too much involved with navigating the community college courses including general education requirements and electives that were not part of his chosen field. He said it was just too challenging to keep up and was looking for a more focused education, so he enrolled at our Avondale, Arizona campus, where he completed our core auto program and went on to our forward advanced training program.

Jonathan graduated during the pandemic, and immediately went to work in Arizona Ford dealership. He told us that he loves the security of having a good steady job and doing something that he likes, and wants to do every day, rather than in his words, struggling through college or working in a random job that would not be as much fun or fulfilling. Jonathan's goal is to become a Ford master technician. The story of Jonathan and all students like him makes us proud at UTI and is all too familiar example of the student who is struggling for a traditional career path and found success at UTI.

His journey also underscores another area of focus for UTI--employment. While only 47% of those who attend traditional post-secondary institutions are working in their field of study today, approximately 85% of UTI's graduates go to work in their chosen field after graduation. Over the years, our teams have worked diligently to build our industry partnerships and employer networks in order to directly connect our students to employment opportunities during school and upon graduation.

As we've outlined in past updates, the Bureau of Labor Statistics projects in the U.S. there are nearly 160,000 new technicians annually needed in our subject areas over the next 10 years, while technician training will only provide the market with a combined set of credentials of about 50% of those needed to go out into the workforce. This disconnect underscores that the jobs are there, students just need programs designed to match their interest and talents, industry-aligned training that provides the hard and soft skills and credentials employers require and connections to industry opportunities.

In the last three years, we forged innovative agreements with over 4,500 employers offering a range of incentives to attract and retain our graduates. Over 3,500 of them offer lucrative tuition reimbursement programs up to $25,000. These programs help students more easily evaluate and find employment opportunities, erase debt they accumulated while in school, and lower the possibility of student loan default.

We've also created an early employment partnership program with key employers designed to offer employment, mentoring, and hands-on experience to students, while they're in school, with the opportunity to continue after graduation at higher salaries and receive tuition reimbursement. Employers and manufacturer partnerships like these are at the heart of how we maintain such high employment outcomes for our students and deliver trained talent to our industry partners at the same time.

Nothing underscores the value of these types of partnerships more than the story of Valerio Kansatory [ph], who recently graduated from our Houston campus. Although Valerio says he has always been a car guy, he initially chose to enroll in a four year college for engineering degree right out of high school. By the second year, he knew it wasn't right for him and he transferred to our Houston campus for automotive and diesel program.

Valerio excelled here, he was among one of the top students in this program, and only one of 12 students nationwide selected to participate in the most recent Porsche advanced training program. For someone like Valerio, whose Venezuelan heritage taught him that Porsche is the brand, it was in his words, a boyhood dream come true. He started and completed the program during the pandemic, using our new blended learning model. Following his graduation in late September, he went to work right away at Momentum Porsche in Houston, a job he loves.

Now four-year degree programs can be right of choice for many of our young adults, but for others like Valerio, a fast-track, quality technical education can be a powerful path to success. Valerio, who has experienced both education models, told us college was no comparison to what he learned at UTI. Now Valerio's story is not an isolated case, all the graduates of Valerio's class in the post-technology apprenticeship program, which is offered exclusively in partnership with Universal Technical Institute, went immediately to work at Porsche dealerships in New York, California, Texas, Florida, Pennsylvania, North and South Carolina, and Alabama.

All tuition and housing costs are covered by Porsche and the company also arranges local part-time employment for students, while they're in the 23-week program. The Porsche program is offered in a blended format combining online education with hands on training and CDC compliant labs. Porsche directly supports, equips and invests in the program, allowing students to receive training on all the latest Porsche vehicles and technologies.

We've seen similar results during the pandemic for our recent graduating classes coming out of other manufacturer-specific advanced training programs, including 98% employment for the Volvo graduates, a 100% employment for Peterborough program, who graduated on October 30. As you can see, the outcomes and metrics that mean the most to us are aligned with those that mean the most to our students, manufacturer partners, and employers. Persistence, graduation, and ultimately employment rates are what have defined the success of our education model for the past five decades and will continue to do so going forward.

Now, I'd like to highlight some of the past year's accomplishments. Candidly, there were times in 2020 where it felt like just staying on our feet was a herculean task, yet to the hard work and discovery of new and innovative approaches, all of our 12 campuses in eight states are fully operational and have been serving our students throughout the entire quarter. We continue to follow the CDC federal recommendations and guidelines as well as local health authority guidelines and recommendations.

We continue to work closely with students with respect to concerns about their health to help them continue their education towards achieving their career goals. Despite the challenges, we continue to provide the high quality, state of the industry technical training, for which we're known.

Our campuses have accomplished a great deal. Since resuming hands-on-labs last quarter, we graduated over 2,770 technicians and continue to see high employment rates as the transportation industry continues to serve the nation as critical infrastructure. It's taken innovative new approaches to teaching and learning in order to continue to meet the robust employer demand and support students in completing their education through this challenging year. We're maintaining a key focus on investing capital and to hone our new blended learning approach, fine-tuning the student experience and ensuring student success in this new environment.

Blended learning model will be how UTI students learn going forward. This innovation offers increased safety, and flexibility to our UTI students, better prepares them for high-tech careers that require both hands on and digital skills, and aligns with how industry increasingly trains, up skills, and rolls out new technology to its own workforce.

With that in mind, we're also providing students with laptops, to ensure that each and every student has viable, cost effective means of accessing the online portion of the curriculum and will serve as an important tool to take with them as they begin their careers. To-date with the assistance provided by CARES Act funding, we've distributed over 12,000 computers and we'll be continuing the program going forward.

It's important to note, that combining the $17.1 million that we've now distributed directly to students in CARES Act emergency grants, with the funds utilized to purchase the laptops for students, $23 million, or approximately 70% of UTI's Higher Education Emergency Relief Fund allocation, has been distributed directly to students in the form of cash and technology. We once again want to thank the U.S. Congress and Department of Education for their strong support of our students and helping them stay in school on the path to fulfilling careers in essential industries during such uncertain times.

Other accomplishments in 2020 also include the continued expansion of our successful welding technology training program. We added our fourth and fifth programs at our Houston and Long Beach campuses during the fiscal year 2020. Our current plan is to launch welding technology at Lisle campus early in the second quarter and a seventh program in fiscal 2021 as well. We continue to see strong demand for our welding program across campuses.

On average, once fully ramped, each new welding site launch increases overall student starts by about 1.5%. Welding is an important component of our growth and diversification strategy, as it broadens our student base and allows us to serve a much wider range of industry customers. At the same time, it complements our core technical training business and is consistent with our commitment to quality education that prepares students for rewarding careers. The U.S. Bureau of Labor Statistics projects that there will be more than 400,000 total job openings for welding over the next decade.

With our campuses fully operational, our new blended learning model firmly in place, and our welding expansion continuing, I'd like to highlight the positive trends and momentum in our business right now. As of October, nearly 80% of our students are on regular course schedules, which means they are no longer making up labs. This is a dramatic improvement from last quarter, when that figure was running at 40%. Now nearly 3% of our population are exclusively participating online; again, a significant improvement over the last quarter. Further, the introduction of the new learning model has enabled us to double our class densities since the beginning of the year, while still maintaining CDC health protocols. This increased capacity allows us to better meet the growing demand for our education in a more efficient and effective manner.

Another innovation I've touched on in the past is our marketing and admissions operating models. We fully transitioned our approach to marketing to be more pointedly acknowledge the sharp increase in unemployment of 16 to 24 year-old population in the United States. Our messages have been honed to highlight the robust and durable job opportunities in our field. This sharpening of our strategy is paying off. Media inquiries were up 25% in both Q3 and Q4 compared to 2019.

Now, we did see some slowdown due to the election, as the campaigns poured millions, and if not billions of dollars into the marketplace seeking that much coveted 18 to 24 year-old voter.

But we're already seeing double-digit rebound in November, which bodes well for our December, January, and February starts.

Our admissions organization has also transitioned to primarily a virtual model, and we're seeing some of the upside benefits and efficiencies created by cutting down on travel and other impediments in what was primarily a high touch strategy. Not only are increase increasing as noted above, but conversion rates for those increase in the last few months were up nearly 30%. New students scheduled to start for the coming quarters and fiscal year are looking very strong right now and momentum across the business continues to build.

As far as student starts in the fourth quarter, overall starts trailed 2019, yet were up 1.1% on a comparable basis. In September, we saw double-digit increases in starts and more importantly showed nice improvement over July and August in the third quarter. Looking briefly into Q1 2020, October was great and November is trending even stronger. The number of students who are scheduled to start and start themselves are up double digits. We're off to a strong start in 2021. The overall message here is that, we have our new normal operating model firmly in place. The front-end of our business funnel is continuing to strengthen and gain momentum.

Troy will share with you some of the details on Q4 and 2020 results and how this momentum translates into guidance for 2021 in just a few minutes but let me first spend a few minutes looking forward. We're moving into 2021 with the strongest financial foundation we've had in decades. And as I just indicated, our business momentum is accelerating.

With that as a backdrop, I want to take just a few moments to review some of the strategies we've initiated and are pursuing in earnest. The management team supported by our Board continues to focus on around our parallel strategies of growth and diversification. Both portions of the strategy, could and likely will be realized by a combination of organic and our inorganic actions. We're looking to maintain flexibility and optionality in terms of timing and capital allocation. The organic components of this growth strategy are focused on both program expansions and extensions, where appropriate, and new campus locations as needed.

The inorganic components of this growth strategy, which is primarily composed of potential M&A activity, could include both tuck-in acquisitions, which give us access to new locations, as well as more transformative steps. Both organic and inorganic actions are very much alive and receiving regular attention from the management team and the Board. It's our plan to make some announcements on this front in the coming months.

Diversification, another important component of our strategy and also continues in both organic and inorganic ways. New programs or product offerings, such as the welding technology program, will initially...which was initially introduced in 2017 are just one representation of this strategy. And as you heard, we continue to be active on this front. Efforts to address student financing, overall affordability, and reliance on Title IV; funding are in the planning stages. Business model transformation opportunities, such as those borne of implementing our new and more flexible and efficient blended learning model around the horizon, and not unlike our growth strategies, acquisitions are also a potential component of this effort.

Growth and diversification are the cornerstones of our path forward, yet it's also important to underscore that there are multiple levers at our disposal to become even more efficient and strengthen the company as we grow. One such example is that our efforts to rationalize our existing real estate footprint and optimize our real estate strategy, remains in the forefront of our team's attention. Troy will provide more details, but it should not be underestimated how these efforts can and will strengthen the financial foundation of the future.

In connection with this implementation of strategic plans I've just outlined, we're reviewing our cash needs and potential usages. As part of this exercise, we're evaluating in collaboration with the UTI Board of Directors, the opportunity to replace our stock repurchase plan, which was initially set at $25 million and had approximately $10 million of authorization remaining. If we believe circumstances are favorable for repurchases, a concept, which we have been asked about in the past, and we are still able to invest in our attractive roster of higher ROI growth and diversification initiatives, our renewed plan will give us the needed flexibility to act. We will provide you with additional information if and when that purchase plan is put into place.

Before I hand the call over to Troy, I want to briefly speak to the idea or view out there bordering on consensus in some parts of the investment community that a Democratic administration is automatically and universally bad for our institution and the industry we are part of--for-profit education. Most notably, it’s the notion that in order to qualify for federal funding, institutions such as ours will need to first prove that they are worthy of federal support. As I outlined today in the form of metrics, examples, and outcomes, at UTI, we've held ourselves to a high standard in delivering for our students and industry partners for 50 years.

Our business model is built on one key tenet, when our students succeed, we succeed. Regardless of whether we have a Republican or Democratic presidential administration or Congress, we're optimistic about the future and the path for UTI. We believe both political parties and administrations are big supporters of the type and value of education and credentials we provide for students.

The need for our service is mission-critical to keeping America moving, especially during the country's economic recovery. We saw some benefits from the Trump administration, and we're hearing about plans including increasing Pell Grants and rebuilding infrastructure, that could turn into benefits from the Biden administration.

I'd now like to turn the call over to Troy for a deeper discussion of our financial student metrics, and after which, I'll return to provide some closing thoughts and comments before we open the call up for questions. Troy.

Troy Anderson
Thank you, Jerome. As Jerome outlined, we are very pleased with the progress we made during the quarter and with our operating results for the quarter and the fiscal year, given the many challenges presented by COVID-19.

Starting with student metrics. We started 5,772 new students in the fourth quarter, which increased 1.1% year-over-year when adjusting for the extra start that occurred in the 2019 fiscal fourth quarter and was down 10.3% year-over-year including it. New students scheduled to start increased 6.9% year-over-year for the fiscal fourth quarter, excluding the prior year extra start.

We saw a significant positive shift in the momentum of new student starts earlier in the quarter to later in the quarter. We're looking at start dates from August 31 through the end of September, when over 3,200 new students started the program. We saw a 14.8% year-over-year increase and exceeded our pre-COVID expectation by almost 7%.

New students scheduled to start for this period increased almost 20% year-over-year and exceeded our pre-COVID expectations by almost 15%. That momentum has continued into the first quarter of fiscal 2021, while thus far through our most recent start we have seen strong double-digit year-over-year growth in new student starts. And we are currently seeing the same year-over-year strength and the pacing of new students scheduled to start for the first and second quarters.

For fiscal year 2020, we started with 11,283 new students. While this was down 2.4% as compared to fiscal 2019, I'll point out that we started two-thirds of these students during the pandemic directly into our new blended learning model. Additionally, we saw growth in three of the four quarters of the fiscal year, and eight of the last nine most recent quarters.

In the fourth quarter, we saw improved show rate performance versus the third quarter, with the show rate down 360 basis points year-over-year versus down 400 basis points from the prior quarter. Similar to starts, we saw markedly better results from the August 31 start date through September with the year-over-year show rate down only 180 basis points for that period.

So far in the first quarter of fiscal 2021, the overall show rate for our most recent start has improved 140 basis points versus the same prior-year pre-COVID period. For fiscal 2020, the show rate was down 220 basis points, with the decline all due to COVID impact in the third and fourth quarters. We attribute the impact primarily to the fact that roughly 50% of our students relocate to attend our programs, but this increases to 55% to 60% in the fourth quarter, when we start more than half our students for the year, most of them from the high school channel.

Throughout the third and fourth quarters, we have worked extensively with our admissions and campus teams and our students and their families to address any COVID-related concerns they may have had. We are seeing the benefits of those efforts through the improved show rates over the past few months.

As far as student progression through the curriculum, we are incredibly proud of the progress our team and our students have made since our last earnings call. During the fourth quarter, we graduated approximately 1,900 students and as of the completion of the most recent course rotation, the percentage of students fully caught up and not be in makeup labs was 78% versus 40% at the time of our last earnings call. The percentage of students who were exclusively participating online decreased to 3% versus 13% at the time of our last earnings call.

This progress allowed us to recognize approximately $8 million of the $11 million revenue deferral from last quarter. However, the net deferral, as of the end of the quarter, stood at approximately $6 million and reflects additional deferrals during the quarter based upon the varying stages of progression for students who are still in the makeup labs. We have also seen measurable improvement and stabilization in the number of students lease of assets or LOAs. As of the end of the quarter, the total number of students on LOA was approximately 700 or 5% of total students and are at a consistent level currently. This compares to approximately 12% at the end of the June quarter and 9% at the time of our last earnings call. Given the dynamics of COVID, we will likely remain around 5% to 6% of total students in the near term, which is a few points above pre-COVID levels.

Average students for the quarter were 11,251, an increase of 2.9% versus the same period last year. Total end of period active students was 12,524, a 1.3% increase versus the comparable period. Ending the year positive on these metrics is a testament to the resiliency of the UTI team and the incredible progress they have made working with our students since COVID initially impacted our campus operations in late March.

Turning to the financials for the quarter and full-year. Revenues for the fourth quarter decreased 12.9% year-over-year to $76.3 million and increased approximately $22 million, or 40% sequentially versus the third quarter. The year-over-year change was primarily driven by the pace of student progress in completing in-person labs due to disruptions from the pandemic, which drove the decrease in the average revenue per student of approximately 15%, inclusive of the revenue deferral.

Sequentially, we saw approximately 13% increase in the average revenue per student. Based upon the current trajectory of students completely makeup labs we expect to see measurable quarterly improvement in the net revenue deferral in a revenue per student throughout fiscal 2021.

For the full year, revenues decreased 9.3% to $300.8 million, also primarily driven by the revenue deferral, the overall pace of student progress in completing in-person labs, as well as, lower average students due primarily to the COVID-related LOAs in the third quarter. We prudently controlled costs throughout the quarter, with operating expenses for the quarter decreasing 14.7% versus the prior year to $70.2 million. The decrease span both education services costs as well as SG&A. It was attributable to lower headcount and related compensation and benefit expenses along with lower occupancy, depreciation, and travel expenses.

Operating expenses for the fiscal year were $304.6 million and decreased 10.2% versus the prior year. Productivity improvements and proactive cost actions have been a key part of our operating model the past several years, and we continue to identify and execute on efficiency opportunities throughout our cost structure, while improving and investing in the overall student experience.

Operating income for the quarter was $6.2 million compared to an operating loss of $5.4 million in the prior year quarter. Net income for the quarter was $6.5 million, an 18% increase versus the prior-year period. For fiscal year 2020, net income was $8 million compared to a net loss of $7.9 million in 2019.

As previously noted, our full-year net income includes a $10.7 million tax benefit resulting from the application of the revised net operating loss carry-back rules from the CARES Act. Basic and fully diluted earnings per share were $0.10 and $0.09 for the fourth quarter, respectively, and both were $0.05 for the full year. Total shares outstanding as of the end of the quarter were 32,647,000, slightly higher than the prior quarter.

Adjusted EBITDA was $9.7 million for the quarter as compared to $10.4 million in the prior year period. For fiscal year 2020, adjusted EBITDA was $14 million compared to $17 million for fiscal year 2019. For the year-over-year comparison, recall that we implemented the new lease standard in fiscal 2020 and did not adjust prior year results.

Taking this into account, full-year adjusted EBITDA increased by approximately $2 million year-over-year on a comparable basis. This is despite $31 million of lower revenue and is a very strong outcome, considering all that transpired in fiscal 2020. Note, our adjustments for fiscal 2020 reflect costs associated with the Norwood campus closure and with our CEO transition, while in fiscal 2019 they reflect costs associated with Norwood and a consultant termination fee.

Our balance sheet strengthened further in the quarter with available liquidity of $114.9 million as of September 30th, which includes $76.8 million of unrestricted cash and cash equivalents and $38.1 million of short term held-to-maturity securities. This is a $23 million quarter-over-quarter increase, which is consistent with the increase in liquidity we generated in the fourth quarter of fiscal 2019. This is a notable outcome considering the challenging operating environment during the quarter.

For the fiscal year, operating cash flow was $11 million, while adjusted free cash flow was $4.3 million, including $9.3 million of CapEx. We estimate that cash flow was negatively impacted by $10 million to $15 million for the year due to the timing of Title IV fund flows tied to COVID related delays and student progression through the curriculum. You can see this impact and increase in our tuition receivables versus this time last year, most of which we expect we realized in fiscal 2021.

We believe that our strong balance sheet and ability to generate free cash flow provides us with a solid foundation to execute on our growth strategy as we enter into fiscal 2021. We are actively working in number of strategic initiatives that will create value for our business, our students, and our shareholders, and that we plan to share more details on in the months ahead.

I'll also provide a brief update on our use of the CARES Act per funds. During the quarter, we completed disbursing the $16.6 million of emergency student funds. We also allocated $600,000 of the institutional funds for emergency grants to students. For the remaining institutional funds, we utilized $9.1 million of these funds in the fourth quarter. Of this amount, $5.7 million was for our student laptop PC program. The remainder was for technology and curriculum investments, health and safety on our campuses, and costs associated with additional lab sessions to allow for social distancing. We have approximately $900,000 in institutional funds remaining.

Now, let me touch on our real estate footprint optimization efforts. To recap the actions completed in fiscal 2020, we completed our Exton campus rightsizing of 71,000 square feet in the first quarter and our home office relocation in 16,000 foot reduction in June. We gave back the remaining 152,000 square feet for the Norwood campus after closing it in July, and we signed a new lease for our Sacramento campus in September, which will reduce that campus by 128,000 square feet at the end of calendar 2021.

Combined these actions reduce our annual occupancy cost by over $8 million, with all that Sacramento captured in our Q4 run rate. We are actively negotiating with landlords in other campuses for similar actions. We will share more details when the negotiations are finalized. Our total lease facility portfolio currently stands at 1.85 million square feet. We are also exploring owning versus leasing certain campus facilities, given the strength of our balance sheet, the potential opportunities in the commercial real estate market.

Another topic to touch on is the 8-K filed in September regarding the distribution of the preferred shares held by Coliseum Holdings, to certain affiliated and non-affiliated entities. We view the distribution as very much in support of our strategic objectives and as overall important steps would further bolstering UTI's capital structure. We appreciate the efforts Coliseum went through to initiate and implement the distribution, as well as, their overall support of the company and focus on term value creation for all shareholders. The net effect of this distribution was to reduce Coliseum's direct and indirect holdings to 24.9% of total UTI outstanding shares on an as-converted basis.

This ownership threshold is important to the company as any action involving 25% or more of the company's total outstanding shares would require a change in control review by the Department of Education. This type of review could take as long as six to nine months and could delay any future organic or inorganic strategic actions we may be pursuing.

The shares held by Coliseum and their affiliates are currently limited by a 9.9% voting and conversion cap, which can be lifted through further actions by then and the company. We have communicated with a few of the larger preferred shareholders. While we can't speak for them for their attention at any specific point in time, we understand that they are supportive of the company and our long-term growth strategy, thus intend to be long term holders.

Lastly, for the terms governing the preferred shares, the company has the option to require to conversion of any or all outstanding preferred shares if the volume weighted average price of the company's common stock equals or exceeds $8.33 for 20 consecutive trading days. This price could change over time, based upon certain adjustments.

Looking forward, given our business model, we already have considerable visibility into fiscal 2021, and we feel very positive about the outlook, based upon what we are seeing right now. Students we have currently generate a significant portion of the fiscal year revenue. New student enrollments and starts are pacing very strongly so far for the year, and we have visibility into and control of the key components of our cost structure, as well as, planned investments and productivity improvements.

However, the potential for ongoing impacts from the pandemic cannot be fully determined to quantify. Impacts could be on new student enrollments, show rates, LOAs, withdrawals, and overall student progression through the curriculum, all of which could negatively impact revenue. Regardless, we would expect to manage costs to limit potential impacts to profitability and cash flow, as we did through the actions we took just for 2020.

Additionally, with our blended learning model fully functioning and the enhancements we have planned, we have the ability to pivot rapidly in the event of any future campus disruptions, which is a capability we did not possess back in March, when the pandemic struck.

With that backdrop, I will now provide our guidance for fiscal 2021. For both new student starts and revenue, we expect year-over-year growth of 10% to 15%. For net income, we expect a range of $14 million to $19 million. For adjusted EBITDA, we expect a range of $30 million to $35 million. For adjusted free cash flow, we expect a range of $20 million to $25 million, which assumes CapEx of $15 million to $20 million, approximately two-thirds of the planned CapEx supports high ROI investments including the two welding programs we are launching in fiscal 2021, enhancements to our online curriculum and our campus optimization efforts.

The remaining amount represents a consistent level of annual maintenance CapEx [indiscernible] projects that were deferred from fiscal 2020. From a timing perspective, we expect starts to be higher year-over-year in every quarter, reflecting the momentum we have referenced with growth in Q1 and Q3 being more pronounced. We expect revenue to be down a few points year-over-year in the first half of the year, as we make continued progress on the lab makeup progress, and up measurably in the back half of the year, particularly in Q3.

Profit will also be down versus the prior year in the first half, with the growth in the back half of the year. Cash flow should follow more normal pattern, neutral to modest cash generation in the first half, cash usage in the third quarter and a significant cash generation in the fourth quarter. To the extent any strategic actions, we now have an impact of fiscal 2021, we will update this guidance accordingly.

We will also continue monitoring the COVID situation very closely and we'll update you if it causes any material change in our expectations. Despite this potential uncertainty, with the visibility we have into the business and the confidence we have in our operating model, we feel it is appropriate to provide guidance so the investment community understands where we see the business heading over the upcoming fiscal year. With that, I want to congratulate the UTI team for their many accomplishments in fiscal 2020 and thank them for their tremendous efforts throughout the year.

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

Jerome Grant
Thank you, Troy. To summarize, the outlook for our business is great, as we are seeing significant growing interest in our highly valued programs across the country. We're making key investments in our core value proposition, our programs, industry relationships, and talent. We're continuing to engage our prospective students via new pathways and methods and they are responding. We're continuing to innovate our educational delivery model in ways that support us today, but also open new opportunities for the future.

We're adapting every day to changes occurring in our market, political and business environment, and have demonstrated our ability to operate effectively, even when faced unprecedented challenges. We are proud that, the innovations and improvements that we have made, and will continue to make, have made a stronger UTI today and a better UTI positioned for the future. Our business remains resilient and we continue to make meaningful improvements. Our financial position is strong and clearly superior to many in our industry.

Finally, the academic and employment proposition we offer is more valuable than ever to our students, potential employers, and industry partners. Thank you all for your time and attention this afternoon.

I'd now like to turn the call over to the operator for questions and answers. 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 telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question please press "*", then "2".

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

Steven Frankel
Hi, good afternoon. Thank you. Jerome, could you give us a little more detail on the contract growth. I know last quarter you talked about it being up 20% year-on-year. Has it accelerated from that? And to what extent do you think you've seen any benefit from the uptick in unemployment bringing more adult learners to you?

Jerome Grant
It's a good question. Troy can get you some of the numbers on that, while I talk a little bit about unemployment. I think it may still be a bit too soon to call out the fleshed out effects of unemployment. It is true that from a growth standpoint, that there is a slightly disproportionate amount of our growth coming from adult population right now. And that begins to show the signs of that activity. But I think the COVID effects that we've talked about this quarter-to-quarter before, still masks the real outcomes, and that's something that we think will still be coming down the line.

Troy Anderson
Yes. And Steve, this is Troy. What we said last quarter was that, in the third quarter our contracts were up 20% year-over-year in the quarter. That also has the benefit of that extra start in the third quarter and we said that our fourth quarter enrollments were pacing ahead of our pre-COVID expectations, but our pre-COVID expectations, they were down on a year-over-year basis in Q4 because of that extra start. We did comment on for this quarter because we got a lot of feedback that the extra start between the two quarters was creating some confusion. So, we did comment more on an apples-to-apples basis this quarter starts being up 1.1% and that the contract...the new student enrollments were up 6.9% on a comparable basis.

Steven Frankel
And…but…what are current contracts look like today?

Troy Anderson
Sure, in my comments, I mentioned that for Q1 and Q2 we're currently pacing at a double-digit clip ahead of last year, which keep in mind, was pre-COVID last year. We're currently pacing at a double-digit clip ahead of last year for Q1 and Q2. Now, that's the progress to-date, Q1, where...will only be taking enrollments for another few weeks, another week or two, actually, really for Q1, and then push most of that for Q2. But so, Q1 is pretty fully subscribed at this point from a--what we would expect to enroll. But we're pacing very strongly for Q1 to Q2 and for the full year overall.

Steven Frankel
Okay. And what was the graduate employment rate for the fiscal year?

Troy Anderson
We ended up at 84% for the fiscal year. We were 86% last year, we were 84% year before that, and we're very consistently in the mid-80s, plus minus.

Steven Frankel
Okay. And then going back to your comments around the incoming administration, there has been some talk about a change in the 90/10 rules, that would rule the GI portion into the 90s. How would that impact you? And how would you benefit from an increase in Pell grants?

Troy Anderson
So 90/10, we're 70/30, generally speaking, you'll actually see that in the '60s, in fact, we added some of that detail on our investor deck, which is posted on the Investor Relations website. We're at 66%, because of some of the delay in the Title IV revenues of VA, and cash pay or a little bit higher percentage this year, because of that. VA normally is around 15%, cash pay is normally around 15%. So when you talk about our 70/30, it's 70 Title IV, and 15 [indiscernible]. If they just purely change to 85/15, then we would be fine. If they flip the VA, then we start getting close. But again us…we're in pretty good position relative to other players and there

would have to be some adjustment across the industry to address that, but we'll be fine, I think from day one.

Steven Frankel
Okay, great. I'll jump back in the queue. Thank you.

Troy Anderson
Thanks, Steve.

Jerome Grant
Thanks.

Operator
The next question is from Eric Martinuzzi with Lake Street. Please go ahead.

Eric Martinuzzi
Yes, it was good to see the sequential progress there. I know, slightly shy versus consensus, but a big step up versus what you guys had to deal with there in June. So, good to see the trends headed in the right direction.

Jerome Grant
Thanks Eric.

Eric Martinuzzi
And also thanks for the guidance. I know that sticking your neck out a little bit too, given we're not…nobody would clarify the current environment or qualify the current environment as any kind of status quo, but at least put some guardrails on, what we're thinking for the year. I was curious to know, just for the student reengagement is something that for me is key obviously, new starts matter. But how would you characterize the student engagement kind of an LOA perspective now versus 90 days ago?

Troy Anderson
I'll now comment quantitatively, and Jerome if you want to add any other color from an operations and engagement perspective. But I mean, I commented that we were at about 700 and roughly 5% of students. Keep in mind we're at peak students right now. And we are talking about, just to be clear, total LOA. We are not differentiating between COVID LOA and a regular LOA. We're just…we're talking about total LOAs in our business and…we are, I think we've…we are probably, we normally run about 4%, again plus minus a percent depending on the time of holidays, summer, spring break that type of thing.

So we're probably going to be elevated a point or two and we have students who are in or out there, they are quarantining, their family might have a quarantine issue, maybe they just need to take a little bit of time off with all the dynamics going on. But I think we're at pretty stable point right now, and we would expect as we get further into the COVID world that we continue to normalize, we are probably up a point or two over time.

Eric Martinuzzi
Jerome, any color you would like to give?

Jerome Grant
Yes, well, first of all, the beginning of your comment, starts, I do want to make…I think an underscore of that, the trend we're seeing is quite positive, not only in the number of people scheduled the starts or contracts, but also in the actual show rates, meaning the number of people who have signed a contract who actually show up to school, those numbers are at or exceeding last year's normal show rates right now, which are indications of people's reengagement. And I think that the question is about engagement, we're seeing some very, very positive signs that people are engaged, serious and really focused on going out there and getting a job that's solid.

Eric Martinuzzi
Alright. And then as I look a it, you talked a little bit about M&A. I was just curious to know, obviously, you're going to be looking at things that are incremental to the fundamentals of the business, but there is kind of two directions I see you guys going, one would be more toward an horizontal expansion into either a new geography or a complementary auto diesel mechanic-type of acquisition. And then, the other direction would be into the non-mechanic world. Is there…given, do you prefer either of those two directions, assuming a revenue and EBITDA contribution that was equivalent between the two potential targets?

Jerome Grant
Actually, in many cases you get both, is sort of the short answer is, yes. One of the things we've talked about over the last year, since our capital raise is that, we would like to look at the opportunity to expand our program stat, in order to be able to offer more programs on the footprint that we have and optimize the square footage, optimize the opportunity for that group of people in any given area. But often in those instances, you also have the opportunity to bring our programs, like diesel or auto, into the footprint of one of those as well. And so, it's really a mix of thought, we are really thinking about diversification and getting more products into the market but doing so in the light of also expanding ourselves geographically to be able to address more of that disconnect between the supply and demand of technicians in all areas.

Eric Martinuzzi
Okay. And then, just could you revisit the seasonality here, obviously you the COVID quarter, I guess, that, that's going to be an easy comp. Troy, you talked about down a little bit, if we were to look at things revenue wise on a year-over-year basis, down a little bit in the first half and then up in the back half. But, overall to get to your year of 10% to 15% revenue growth, just take me through the seasonality discussion there one-layer deeper?

Troy Anderson
Yes. Well, it really comes down to be the student lab progression and the average revenue per student, right. I mean, that we will, again, we're at peak students we have some strong starts that have already happened and expectations for the rest of Q1 and Q2. And then, as we continue the lab progressions, but we'll be down first quarter, more than we will be in the second quarter, maybe closer to flat second quarter. Again, this is all predicated on COVID dynamics, but and then as you said, Q3 would just be a blockbuster quarter on a year-over-year basis from a percentage growth perspective. And then, but then also showing growth in Q4, as well that pans out in other way we've outlined.

Eric Martinuzzi
Okay. That's helpful. Okay, that covers it for me. Thanks for taking my questions.

Troy Anderson
Appreciate the questions.

Jerome Grant
Yes, thanks, Eric.

Operator
The next question is from Alex Paris with Barrington Research. Please go ahead.

Alex Paris
Hi guys, thanks for taking my question. I just got a couple; I wanted to dive back into the incoming administration and thoughts about the regulatory environment going forward. And I do appreciate and agree with you. The services that UTI provides are less offensive to the Democrats. In fact, they talk about investing in career learning and that sort of thing all the time. And I was impressed to see also the 90:10 ratio 70:30, military is about 15, so that would get you to 85, if they decided to include that, still below the 90, and even if they reduced it to 85:15, you'd still be in that realm.

So it seems like there's not a lot of concern there. I also noticed in your supplementary material that you're CDRs, your cohort default rates were down again, in the most recent period, down slightly, but heading in the right direction and at 14.5% well below statutory limits. The other thing that the…Biden administration or people who are watching conclude is, one of the things that they're likely to do is to reinstate the Obama era gainful employment rules. Can you refresh my memory, I didn't cover the company actively at the time, but what was your gainful employment experience versus the previous set of metrics? Do you have any programs that failed or any programs that were in the zone? And what did you do about it?

Jerome Grant
So, I want to make sure we're talking as credibly and accurately about that time period as we possibly can. And so, I'm going to let Jody, who was here at the time, give you a couple of pieces of data around exactly what happened and the reaction of the company at that timeframe.

Jody Kent
Hi, Alex.

Alex Paris
Hi.

Jody Kent
So, back on the Obama gainful employment regulations, we had a few programs, if I remember correctly; I think two or three that were in the zone, so sort of a yellow zone. But we had no failing programs.

Alex Paris
That's very helpful. And then, moving, I just had a question about guidance. Troy, you gave guidance for revenues, adjusted EBITDA, a few other things, net income, CapEx, et cetera. Now, in getting to earnings per share, you're giving net income guidance before preferred dividends, correct?

Troy Anderson
That's correct. That's the gross net income.

Alex Paris
Okay. And then so…and then what number of shares should I use in the denominator? So, if I take your net income guidance, subject from preferred dividends, what share count should we be using to calculate EPS?

Troy Anderson
Well, as you can see, for the last few quarters there's really been minimal change quarter-over-quarter, a few small vesting events from employee shares. Our last year grant was in January, so there'll be some shares that vest…some restricted shares that vest in January of this year, not a huge amount. So, I think this…the current count of 32,647 I referenced was a few hundred thousand shares, may be was probably a good count.

Alex Paris
Okay, good. And then, I guess, lastly for me. The advertising, I think you gave us the figure in Q3. You're spending $9 million on advertising in Q3. What was that figure in Q4?

Troy Anderson
Yes, there is a supplemental table in our press release and the number was $9.6 million for the quarter, $39.7 million for the year.

Alex Paris
Okay, great. And then, I guess, I was thinking one more. And I think you alluded to it. The significant increase in employment among young males 16 to 24 almost doubled the national rate. I know, it's hard to determine if you're getting any pickup from that cohort of individuals and COVID tends to mask it to some extent. But would you expect to see, like you saw in last recession, every recession is a little different, but would you expect to see some uptick in new student enrollment as a result of the rise in unemployment in the coming quarters?

Troy Anderson
I'd say, if any effects of COVID may have on the regular…the regular behavior of, however, this…the contour is of a recession. The short answer would be, yes. I think we said, some of the characteristics are different than the last recession. One emerging trend we're seeing is, the number of high school students who were not college bound, because they believed the employment market was out there for them are starting, we're starting to see more of a pickup of interest in the high schools around students who weren't college bound before, which tends to make sense, right. If the unemployment is highly concentrated in that age group, they are not seeing the opportunities on the other end that they had before. So, we're beginning to see it, but I think more of it is in front of us, than behind.

Jerome Grant
Hi, Alex, I think we have one more in queue. We're going to try to sneak in one more question. So, appreciate your questions.

Operator
And that question is from Austin Moldow with Canaccord. Please go ahead.

Austin Moldow
Hi. I have got a quick follow up on the LOAs. How many COVID-related LOAs, do you think were ultimately lost and not expected to come back?

Troy Anderson
We have seen a bit of an uptick in our withdraws. So that…that's also kind of runs in that low to mid single-digit percentage. So, we're working through the LOA. People who have been on the extended LOAs. Keep in mind, the Department of Ed loosened the LOA guidelines, so that people can take them longer than the standard six months. And also with students who have accumulated a significant backlog in terms of their makeup labs, we're starting now to go to them and say, hey, we really need to have a recovery plan here to keep you current in the curriculum or get you current in the curriculum. So, it's not dramatic, but 100-200 students as we're working through that. But they cycle out of an LOA, either become active and go to withdrawal, but then we have other people who go out on LOA. It's a really…it's a constant cycle.

Austin Moldow
Got it. And then my last question is on blended learning. Can you give an update on the blended learning roll-out and what the specific areas of improvement are in that? And can you also explain the differences, and how you expect it will look in the future compared to what it might look like today, after I imagine spinning it up relatively quickly to cope with the pandemic?

Jerome Grant
Yes, I mean a lot of effort now is being placed into a few different areas. Number one, putting some more sophisticated learning architecture into the workflow of the student assessment projects, things along those lines that better keep students engaged. Those were things you just couldn't do, when on the 16th of March, you have to create and go live with nearly 200 courses.

And so, we've been bringing more interactivity and learning design into them, hired some people into our shop that are experts in that area in order to do that. Assessment is another area, bringing more sophisticated assessment tools into it. And then, also continuing to hone our communication tools to make sure that these cohorts are staying connected with the campuses and staying connected with the lab, because our new normal is that students are doing online learning in the same week that they would come in and do lab. So, it's not wildly disconnected by a weak online and then a week in the labs. And so, we want to keep that communications stream open as the students are doing both in a given week.

Austin Moldow
Great. Thank you.

Troy Anderson
Thanks for your question, Austin.

Austin Moldow
Alright. Take care.

CONCLUSION

Jerome Grant
Thank you. Before signing off, I once again like to express my utmost gratitude to the UTI team for their continued effort in these unprecedented times. It was a pleasure to further express our focus on student outcomes, share accomplishments to students and the organization and convey our vision for the future. It feels especially important this year to convey our warmest wishes to everyone for a safe and healthy holiday season. And I want to thank you all. This concludes the call.

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