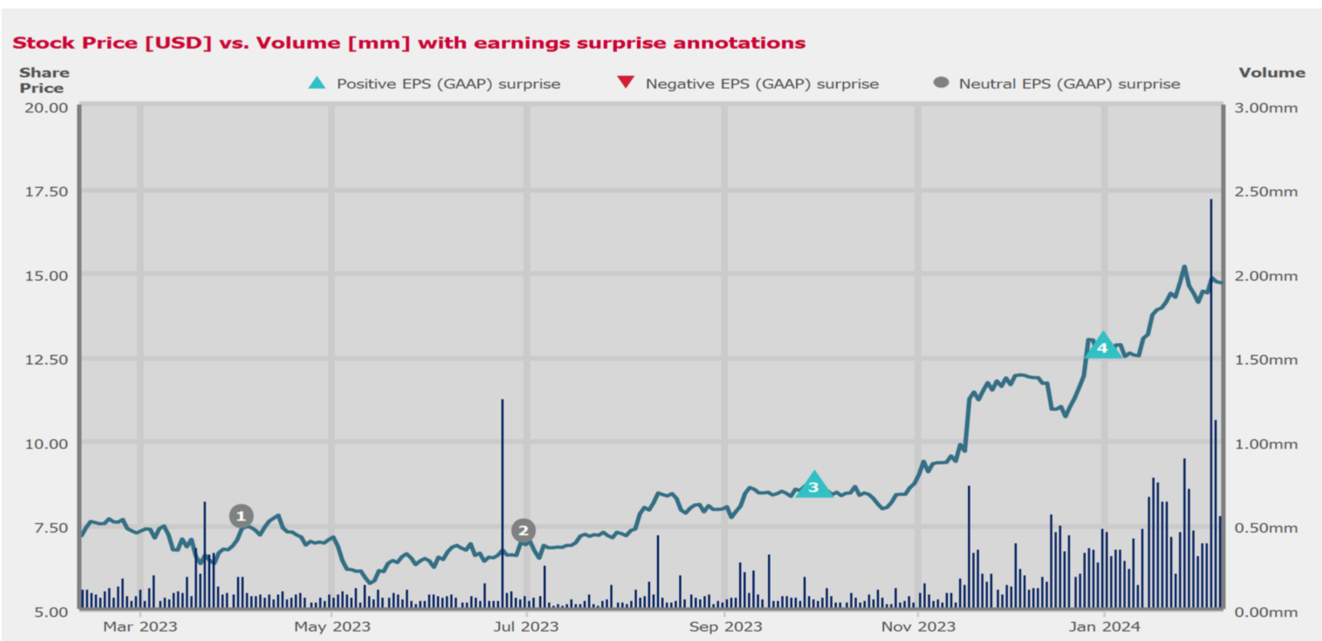
S&P Global
Market Intelligence

Universal Technical Institute, Inc.
NYSE:UTI
FQ1 2024 Earnings Call Transcripts
Wednesday, February 07, 2024 9:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.04	0.17	▲88.89	0.13	0.62	0.79
Revenue (mm)	168.33	174.70	▲2.03	176.90	708.84	743.25

Currency: USD
Consensus as of Feb-01-2024 2:13 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2023	(0.03)	0.04	NM
FQ3 2023	(0.11)	(0.05)	NM
FQ4 2023	0.07	0.10	▲42.86 %
FQ1 2024	0.04	0.17	▲88.89 %

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Call Participants

EXECUTIVES

Jerome A. Grant
CEO & Director

Matthew Kempton
Vice President of Corporate Finance

Troy R. Anderson
Executive VP & CFO

ANALYSTS

Alexander Peter Paris
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Lake Street Capital Markets, LLC, Research Division

Michael John Grondahl
Northland Capital Markets, Research Division

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

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

Presentation

Operator

Good day, and welcome to the Universal Technical Institute's First Quarter 2024 Earnings Call. [Operator Instructions]. After today's presentation, there will be an opportunity to ask questions. [Operator Instructions]. Please note this event is being recorded.

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

Matthew Kempton
Vice President of Corporate Finance

Hello, and welcome to Universal Technical Institute's Fiscal First Quarter 2024 Earnings Call. Joining me today are our CEO, Jerome Grant; and CFO, Troy Anderson. Following our prepared remarks, we will open the call for your questions. A replay of this call, its transcript and our investor presentation will be archived on the Investor Relations section of our website at investor.uti.edu, along with our earnings release issued earlier today and furnished to the SEC.

During this call, we may make comments that contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, which by their nature, address matters that are in the future and are uncertain. These statements reflect management's current beliefs and expectations and are subject to a number of factors that may cause actual results to differ materially from those statements.

These factors include, but are not limited to, those discussed in our earnings release and SEC filings. These statements do not guarantee future performance and therefore, undue reliance should not be placed upon them. We do not intend to update these forward-looking statements as a result of new information or future developments, except as required by law.

Please note, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of fiscal 2023. This information presented today also includes non-GAAP financial measures. These should be viewed in addition to and not as a substitute for the company's reported results prepared in accordance with U.S. GAAP.

All non-GAAP financial measures referenced in today's call are reconciled in our earnings press release to the most directly comparable GAAP measure. For more information regarding definitions of our non-GAAP measures, please see our earnings release and investor presentation.

With that, I will turn the call over to Jerome Grant, CEO of Universal Technical Institute for his prepared remarks. Jerome?

Jerome A. Grant
CEO & Director

Thank you, Matt. Good afternoon, everyone. Our momentum continued into the first quarter of 2024 as the company's financial performance has continued to exceed expectations. We achieved $174.7 million in revenue and $24.5 million in adjusted EBITDA. Student starts were 43 46, which was right in line with our expectations. Troy will spend some time in just a few minutes going a bit deeper into these impressive numbers.

These results underscore the consistency with which we have delivered on our financial promises over the past several years. We have also made rapid progress on our growth and diversification objectives. And we have entered this fiscal year as a robust multidivisional company poised for continued growth and with each division priding themselves on maintaining a strong track record of superior student graduation rates and employment outcomes.

Our excellent performance is made possible by the dedication of our faculty, staff and students across Concord and the UTI division, along with support from our corporate teams. I'd like to thank them for their tireless commitment as we continue executing on our growth objectives and expanding the training and employment opportunities we provide our students across in-demand industries.

As a key corporate update, I'd like to highlight that effective December 2023, we satisfied the conditions that allowed us to fully convert our outstanding Series A preferred stock into common stock. In connection with the transaction, Coliseum Capital Management's Co-Founder and managing partner, Chris Shackelton, was appointed as a Class III director to our Board. Troy will review the milestones more fully later in the call, but we would like to thank Chris and Coliseum for their support when we most needed it and their continued investment in partnership.

We also have continued to strengthen our corporate and divisional leadership teams. As we announced last month, we recently appointed Carolyn Frank as our first corporate Chief Human Resource Officer. Carolyn brings tremendous experience in building and managing human resource organizations, including Finance of America and Gild Mortgage Company, both New York Stock Exchange listed company.

I'm confident that she will contribute at a very high level to our mission, and I'm proud to welcome her to the company. I'm also happy to announce that Kevin Prane has been appointed the President of Concorde Career Colleges. Since accepting this interim appointment in September, Kevin has made resounding contributions to both the division and our corporate leadership team.

With Kevin at the helm, I'm confident that the Concorde division will quickly reach its fullest potential. We look forward to our continued work with Kevin and progressing Concorde's divisional goals. Let's turn our attention to both the performance and notable highlights for each of our divisions, starting with Concorde.

In the first quarter, we continued to make progress with new health care program rollouts. As we announced in December, we launched a cardiovascular sonography program and a diagnostic medical sonography program in Orlando and a dental hygiene program in Jacksonville and another cardiovascular sonography program in San Bernardino.

This brings us to five new Concorde programs launched in the past 6 months as we had previously launched an online respiratory therapy program in late fiscal 2023. Market demand for our health care programs remained strong through the first quarter. We also continue to work towards launching two other dental hygiene programs this year, where we have maintained our progress by completing their necessary regulatory approvals.

In addition, we're in the process of expanding the capacity of our dental hygiene program in our San Diego campus. We also remain focused on driving additional operational and organizational efficiencies within Concorde, along with executing on further integration and synergy opportunities, while optimally supporting our current and incoming health care students.

Our work to fine-tune the divisional infrastructure gives our health care offerings an even greater platform for growth. In the UTI division, we've continued to accelerate our year-over-year start growth in Q1 and ramp our newest programs. Significantly, we have now launched the aviation program in UTI's Miramar campus, which was the final launch from our 14 planned new programs last year.

Demand for these newest programs has remained strong with almost 400 combined student starts across the 14 programs over the last two quarters. We're encouraged by the early returns from these programs, and we're making good progress growing the enrollments in pipeline. We anticipate at least 1,000 new student starts with these programs this fiscal year.

The division's most recent program launches are just our first steps towards expanding the MIIT source aviation, skilled trades and energy programs more broadly across the UTI campus footprint. We continue to evaluate additional program expansion opportunities in the UTI division. In fact, we've already started the second phase of the program expansions and at present, we're on track to launch 3 additional heating, ventilation and air conditioning programs this year with a fourth APAC program expected to launch in early fiscal 2025.

In another strategic step related to the MIT acquisition, we recently announced our plans to consolidate the UTI division's Houston operations into a single campus. Through this transition, the MIAT Houston campus will start operating under the UTI brand and implementing a phase transition beginning this May.

The consolidation is meant to streamline operations and standardize our educational delivery model in Houston through aligning our campuses curriculum, student-facing systems and their educational and career support services to better serve students seeking careers in in-demand fields. This process will also help future students complete certain programs more quickly and strengthen UTI's position as a dominant provider of career and technical education solutions in the Houston market, a market in which we've operated for over 40 years.

We're working to ensure that the current MIAT students have a seamless and positive experience through the transition, and we expect the transition process to be fully completed in early fiscal 2025. Our division level initiatives all support our core commitment to driving superior student outcomes across diversified in-demand fields.

We deliver on this commitment not only through expanding our program offerings and optimizing our campuses, but also through prioritizing top quality industry partnerships and instruction. In both divisions, our industry partners continue to invest in our programs and students. For example, Standard Motor Products, or SMP, is a long-time UTI division partner that manufactures and distributes premium automotive and truck bark.

S&P's products are deeply integrated into the hands-on portion of our automotive and diesel programs. S&P recently extended its partnership with UTI to provide a product allowance at our UTI campuses and investment of up to $80,000 per year. In addition, we recently secured a partnership with the United Service Organizations, commonly known as the USO.

This partnership will offer specialized training programs and resources to help military personnel with their transition to civilian life and careers in transportation, motor sports, renewable energy, and aviation industries. In terms of our health care partnerships, we announced last week that our partners at Jefferson Dental and orthodontics recently donated two cutting-edge iTero intraoral 3D scanners to Converge Dallas and San Antonio campuses.

iTero 3D scanners use a handheld won to capture thousands of images of patients mouth in just seconds. And this enhanced visualization enables higher quality dental services and patient experiences. Through using the scanners in their clinical work, our dental students will access innovative state-of-the-industry technology that prepares them for the future of dentistry.

We extend deep gratitude to our partners at Jefferson Dental for their generous donation and dedication to our students. Also at Concorde, Heartland Dental, one of the top dental service organizations in the nation with more than 1,700 supported practices nationwide, recently extended their commitment to provide scholarship offerings to students in our dental hygiene program.

This is the third year that Heartland has invested in our dental hygiene students. Now looking ahead to 2024, we continue to have high confidence in the trajectory of our student starts and the guidance we set in November of 24,500 to 25,500 starts. That said, with the strength of our first quarter results and continued progress on our growth, diversification and optimization strategy, we are raising our full year revenue and profitability guidance for fiscal 2024.

Notably, we now expect to generate annual revenue between $710 million and $720 million and adjusted EBITDA of between $100 million and $103 million. Troy will cover these updates in more detail in just a few moments. To support our broader revenue and profitability and cash generation objectives, we also continue to drive on our key operational focus areas for 2024 which include increasing enrollment revenue and profit growth from our fiscal '23 and '24 program launches, ramping the yield of our marketing and admissions investments to further optimize lead generation and inquiry conversion in both divisions.

And continuing to optimize our workforce strategies, hiring practices and facility utilization to drive greater capital and operating cost efficiencies, both of which propel our program and margin expansion. Our focus in these areas will also give us an even greater foundation from which to drive strong student outcomes.

We've already laid much of the foundation over the past 2 years, and we expect to make additional progress throughout fiscal 2024.

I'd now like to turn the call over to Troy to review our first quarter financial results. Troy?

Troy R. Anderson
Executive VP & CFO

Thank you, Jerome. We outperformed our revenue and profitability expectations once again in the first quarter, reflecting a robust full quarter contribution from Concorde and new student start growth in both divisions. Consistent with last year's presentation, our results include both consolidated and segment views as well as corporate unallocated costs.

Unless stated otherwise, the year-over-year comparisons remain on an as-reported basis as the year ago period only includes 1 month of Concorde contributions from the acquisition date of December 1, 2022. To summarize our operational performance, we recorded 4,346 total new student starts, which was in line with our expectations and reflects year-over-year start growth across both divisions.

In the UTI division, starts increased 17.2% year-over-year, and we continue to see improved same-campus same program growth consistent with the past few quarters. The divisional start growth also reflects contributions from our most recent program expansions, as Jerome already commented on. On a pro forma basis, Concorde core starts grew a healthy 14.4% with total starts growing 12.5%.

The core starts reflected additional marketing investments and continued success with the grant programs implemented last year. No clinical start growth rates are highly variable on both a quarter-over-quarter and year-over-year basis due to varying program lengths and available starts, which can be limited by a programmatic accreditation standards.

Moving to our financial performance. Our first quarter revenue of $174.7 million on a consolidated basis exceeded our expectations, increasing 45.6% versus the prior year. The full quarter of Concorde contributed $59.3 million, which increased $44.9 million versus the prior year, while the UTI division saw 9.3% year-over-year growth.

From a profitability standpoint, consolidated net income for the first quarter was $10.4 million or $0.17 per diluted share, while adjusted EBITDA was $24.5 million. These all reflect measurable year-over-year growth due to the full quarter contribution from Concorde along with improved operating leverage and cost efficiencies as we generate yields from our growth investments and optimization efforts.

Note, our EBITDA adjustments are largely consistent with last fiscal year. Versus last year, we expect less of an impact from new campus and program start-up costs and limited impact of acquisition-related costs. A potential new item this year is restructuring costs related to the UTI and MIAT Houston campus consolidation efforts. To the extent there are costs for this, they will be recognized in the period they occur.

As Jerome mentioned, in December, we satisfied the conditions that allowed us to fully convert the outstanding Series A preferred stock into common stock. This increased our total common shares outstanding by 19.3 million shares. Immediately prior to the conversion, we purchased 33,300 shares of Series A preferred stock convertible into 1 million shares of common stock owned by Coliseum and affiliate for $11.3 million.

Through the repurchase, their combined ownership percentage post conversion is below 25%, thus eliminating the need for further regulatory approval. As of December 31, 2023, we had $53.7 million shares of common stock outstanding. Of note, given the partial quarter with the preferred shares in place, our earnings per share calculation for the first quarter reflects the 2-class method we've used previously with the associated effects of the preferred dividend and the earnings allocation to the participating securities.

Going forward, our year-to-date and full year EPS calculations will also reflect the 2-class depots, while the remaining quarters will reflect the more traditional basic and diluted EPS calculations. We saw a favorable effective tax rate in the quarter versus more recent quarters and the year ago period due to the impact of various discrete items.

Following these benefits through the full year, we now expect the full year effective tax rate of approximately 27% versus our initial 30% expectation. Total available liquidity at the end of the quarter was $143.6 million, which includes the $90 million drawdown of our revolving credit facility. We ended the quarter with excess net working capital, while our target going forward is to maintain a modest level of net working capital.

As such, we will be actively managing the amount of the draw we have against the revolver to achieve this target and minimize interest expense as much as possible. Total debt was approximately $162 million, while net debt was approximately $18 million. Our first quarter operating cash flow was $10.8 million and adjusted free cash flow was $10.2 million.

Our cash CapEx of $3.8 million for the quarter was a bit lighter than we expected due to spin timing, but we still expect approximately $30 million of CapEx for the full year. Consistent with our guidance, we currently have lower levels of new growth investment activity planned for fiscal 2024 relative to recent prior years. Thus, we continue to anticipate having fewer adjustments and expect to generate strong unadjusted free cash flow for the fiscal year.

With our positive first quarter performance and current visibility into the remainder of the year, we are raising our revenue and profitability guidance ranges for fiscal 2024. Our updated guidance ranges are as follows: Revenue was $710 million to $720 million, an increase of $5 million, net income of $36 million to $40 million, an increase of $2 million, diluted earnings per share of $0.67 to $0.72, an increase of $0.14 with approximately $0.10, driven by the combined impact of the preferred conversion and repurchase and adjusted EBITDA of $100 million to $103 million, which increases the bottom end by $2 million and narrows the range by $1 million.

We continue to have high confidence in our prior adjusted free cash flow guidance of $62 million to $66 million as well as our prior new student start guidance of 24,500 to 25,500. As always, we will evaluate our guidance throughout the year as we gain further insight into our actual and expected performance and make adjustments as a program.

In terms of revenue phasing, we continue to expect upper single-digit to low double-digit revenue growth over the remaining quarters. These expectations are driven by the ongoing ramp of our recent program expansions and student start growth momentum in both divisions. For new student starts, we continue to expect double-digit growth in the second quarter and then stabilization in the low to mid-single digits in the second half of the year as we complete the initial ramp phase of our prior new program investments and mature and proactive grain enhancements and other initiatives we put in place in fiscal 2023.

Moving to adjusted EBITDA. We continue to expect solid growth each quarter with higher growth and profitability in the second half of the year, given the revenue growth, higher yield from our program expansion investments and greater operating leverage from our SG&A and fixed costs. For GAAP net income and diluted EPS, we expect significant year-over-year growth each quarter, given the improvement in overall profitability and the relatively smaller numbers in the prior year, along with the benefits of the preferred share conversion.

As we look ahead across both divisions, we will be focused on optimizing our cost structures in facility and resource utilization and driving increased yields from the growth investments we have made in the past few years. We will also continue working to identify additional growth opportunities where we can efficiently deploy capital and further our growth and diversification objectives.

We encourage everyone to review our press release, financial supplement and investor presentation as these materials include the most current information on our consolidated and segment actual results, our strategic road map and our guidance. I'd like to thank our team, students and partners for their continued support as we progress further into 2024.

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

Jerome A. Grant
CEO & Director

Thank you, Troy. As our first quarter performance demonstrates, we've continued to deliver on and exceed expectations across our key financial metrics, while expanding the top quality training and career opportunities we facilitate for our students in high-growth markets. Our execution has remained strong and consistent over the past several years, giving us much of the runway needed to achieve our updated fiscal year 2024 targets.

We are at least a year ahead of our originally stated plan and our revised targets exceed even this long-term view. They are a testament to the robust multidivisional foundation we have built and continue to refine. Upon this foundation, we will continue providing premier diversified career pathways for our students, but at even a greater scale in caliber.

Over the coming quarters, we will be working to ramp the most recent program launches in both divisions, enhance the yield of our marketing and admission investments and optimize our workforce and facilities utilization to drive greater margin expansion and improved operating leverage. This work enhances the benefits of the initiatives we put into place over the past year as well as the overall strength and efficiency of our growing platform.

In closing, I'd like to reemphasize that this is not the endpoint of our growth trajectory. We have Concorde as the cornerstone of our health care operations and remain focused on ramping our presence and offerings for this rapidly growing industry as well as our expanding program offerings and corporate partnerships across both of our businesses. These focus areas make us well positioned to evaluate further pathways towards deepening and diversifying our footprint. We are proud of our progress, and we look forward to continuing and building on our momentum for UTI Inc. in fiscal 2024 and beyond.
I'd now like to turn the call over to the operator for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions]. Our first question comes from Mike Grondahl with Northland Securities.

Michael John Grondahl
Northland Capital Markets, Research Division

Jerome, could you maybe highlight what is working on the marketing side and some of those investments you've made, whether that's high school, military, just maybe expand on that a little bit? Like what's working on the marketing side and kind of getting people into school.

Jerome A. Grant
CEO & Director

Sure. Well, a couple of things. Our adult population, which includes military, demand is driven through digital means. And we've begun to use more sophisticated tools along with our social media vendors and Google that's doing a much better job of utilizing new AI tools to isolate the population that's most likely to be interested in where we are.

So the way we come interest nowadays, whether it's geographically by age, by social media preferences and things along those lines is actually just giving us a better quality lead, which is great to see. And also helping us discern between those that are less likely to convert and those that are more likely to convert, which helps our reps spend more time with those that are more likely to convert.

And so we're seeing an uptick in conversion based out of our ability to better identify those that are more likely to look into transportation and skilled trades or in the health care fields. And then one of the things we talked about at the beginning of the year is that we significantly increased our presence this year in the high schools.

And so in the high school organizations, a lot of the demand is driven. Most of the demand is actually driven by our reps going into the high schools and doing career presentations, I think three, four days a week, five, six presentations a day and generating interest off of that. And so in 2023, we added about 15 reps in the high school channel and they're hitting their stride in their second year.

Their relationships are stronger. They know more about the schools, they know more about the faculty and the administration of those schools, and we're seeing them be significantly more effective and, frankly, doing a lot more presentations, which is generating a lot more leads. So those are the things that I think are probably turning things possibly in our direction from a lead generation standpoint.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. And then just one more question. You've done a bunch of expansions at Concorde at UTI. Is there maybe one at each that really sticks out or one or two at each that has just done so well? Any color there?

Jerome A. Grant
CEO & Director

Yes. There's -- well, on the Universal Technical Institute division side of the aisle, I think the HVAC programs actually are operating the way traditionally we've talked about in terms of welding, which is they're filling up pretty much right way is that. And again, I think the -- there's a lot of demand out there for HVAC technicians. People understand what an HVAC technician does.

And therefore, there's less market knowledge that needs to be put in less teaching and learning that has to happen about what the career is. And so we're really happy to see what's happened with the first HVAC implementations. And that's why we decided to accelerate more of them on the UTI campus. In second place, I think aviation -- the need for aviation tax is also very, very strong.

And so our aviation programs have done very, very well and in most cases, exceeded our expectations for the initial cohorts that have started in the group. On the health care side, the -- Concorde is very, very strong in the dental fields. And so it's a reason why we decided to move forward aggressively with implementing some dental hygiene programs that had been approved prior to that acquisition is going ahead and invest and get them in on the campuses is that demo hygiene programs sell out very quickly.

We actually have to be quite selective in who we put into them because we have a limited number of seats. And therefore, we then start creating waiting lists for the next cohorts that are coming along. So those two right there, HVAC and Dental with aviation closely behind, I think, are the shiny star so far. Not to say that the other programs are not doing well. They are.

They're just smaller, and in some cases, like robotics or wind energy, we spend a lot more time letting the market know what this discipline is because people really don't realize that there's someone who climbs up at wind mill and that fixes that on the inside. So I hope that answered your question.

Operator

Next question comes from Steve Frankel with Rosenblatt.

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

So one of the trends that has been going on for a while that's been benefiting you as employers really battling for these students and upping their offers in terms of things like tuition reimbursement. Given where we are in terms of the overall employment market, has that battle turn the other way? Or do you still see the stakes getting higher for someone to get to the table at UTM?

Jerome A. Grant
CEO & Director

It's a great question. If anything, in many of the areas on the UTI side of the equation, the demand is been growing. If you look at BLS projections over the next years is that demand for people in the transportation skill trades and energy or even growing. And so one of the things that we've commented on in the past that we're most proud of is this trip program that we put into place is that prior to putting that into place.

We really didn't have an organized way of sort of registering what the employment community would be offering or suits. And these trip agreements, right, how much are you going to pay, how much tuition reimbursement. Are there any other benefits like sign-on bonuses or in some cases, autos and things along those lines?

And so those agreements help us rank order the compelling nature of people that are gained access to our students. They also allow the employment community to understand what the landscape of -- because these are not private occupancies are something we make public to all of the students and the employers can see it, too, what their competitors are offering.

And so what we see is people in order to get more favorable position of accessing our graduates are putting together more competitive offers. And that's what we want to do for our graduates. We want to give them a very high quality industry-aligned education, and then we want to get them the best jobs that we possibly can.

And so these trip agreements, I think, are a great example of things that are actually heightening the competition between those who are gaining access to our students on that side of an aisle. This is upside for Concorde because prior to us owning them last year, they did a very, very good job of cultivating local opportunities for their graduates.

And as you know, from what we've been talking about health care opportunities they dwarf transportation trades and energy in terms of the magnitude of need out there in the market. And so now we're starting to evolve the Concorde organization with some of that same organization, and we expect that we'll see some of the same results out of that.

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

And that's fantastic. And then another challenge, especially when inflation was at its peak, was convincing students to relocate? Have the incentives that you were offering work and kind of changed the capacity situation at those big campuses like Orlando.

Troy R. Anderson
Executive VP & CFO

Yes. Steve, this is Troy. Look, we're still seeing -- I would say it's been moderated the last few quarters. So we haven't seen it turn. So we're still seeing really strong progress on the local side, continuing to penetrate more deeply in the local space, especially with the new program offerings, helping to drive that relocation, we're making good progress. We're generating the leads.

And again, I think it's stabilized, but some of the campuses where we have a much higher relocation concentration. We're still trying to work with those students to find the right mix of things to bring the most students possible in there.

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

And then the last one, at least relative to the way I modeled it, the revenue per head at the core UTI or the legacy CI business was a little lower than I thought. Was there anything that led to that, that you would call out?

Troy R. Anderson
Executive VP & CFO

Well, we have a traditionally Q1 dips because of the holidays were closed for a week in December. So that may -- apologies if we didn't convey that in any of our prior conversations, but we do see a dip and then it bounces back up and you see your kind of traditional growth trajectory, a few points of growth based upon tuition escalations.

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

Perfect. I just want to make sure those were still in place for the rest of the year.

Operator

The next question comes from Raj Sharma with B. Riley.

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

And great solid performance in the quarter. I wanted to understand better the starts. They are slightly higher than expected. Is my understanding is most of the starts gain that you expect for the year in the second half?

Troy R. Anderson
Executive VP & CFO

Still. So yes, Raj, this is Troy. The -- so the guidance we gave back in November was we would have very strong growth first half of the year, double digits, and then we would see that moderate in the back half of the year. I commented on that in my prepared remarks that is still our expectation.

So getting 17% for UTI in the quarter. About half of that new programs and half of that same campus same programs -- and then, of course, Concorde, I commented on a pro forma basis. This will be the last quarter where there's a partial quarter, but that was 12%, a little over 12% on a pro forma basis. So good growth there as well.

But as we get into the back half of the year, we'll start lapping over or anniversarying over some of the improvements we implemented last year as for our grant programs, some of the marketing initiatives and of course, the program expansions on the UTI side. So that's why we expect to see something more in the low to mid-single-digit range in the back half of the year.

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

Great. And then just across the board, the student starts, the high school and adults were pretty consistent. Military was higher than usual. Is that an anomaly? Or is that just small numbers coming [indiscernible].

Troy R. Anderson
Executive VP & CFO

Yes, yes, it is a bit of small numbers. We also have talked about some of the improvements from head on high school previously, the staffing in high school. We had done the same thing in military. It's a smaller team, a much smaller team. But it's about two dozen now. We increased that almost by 50%, including some of the attrition that we had seen over the last year or two.

So that's a pretty fully staffed team. We also centralized our financial aid support for our prospective military students to make that process much more streamlined and efficient. So you have the reps and a core group of [indiscernible] representatives working together across the whole portfolio of prospective students, and we're seeing the benefits of those actions in the military growth rate.

It will bounce around a bit from quarter-to-quarter, again, because of smaller numbers, but we have been very pleased with the military growth, certainly in the last several quarters.

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

Great. And then just on the numbers, I know the starts would be low to mid in the second half, but there is a big jump in the top line and also especially EBITDA in the second half. The first quarter -- Q1, there was a big beat on EBITDA to where is -- and I see that the operating expenses are 400 basis points about lower than last year. Most of these gains in EBITDA are coming from operating leverage then?

Jerome A. Grant
CEO & Director

Yes, it was about half and half versus our expectations. About half of the benefit was revenue and the other half was expense mostly timing, we didn't ramp expenses quite as fast as we thought we would. We had some initiatives that we're going to start later in the year than we were thinking when we came into the year.

So there's a little bit of push associated with the expense side and some of that was just a timing on ramp, which is why we were able to increase our guidance because we'll flow through some of that net benefit for the year. The top line, keep in mind, again, there's a tail. We have a start this quarter with that students in school for a year.

And so the strong growth we exited last year with -- and the strong growth that we have in the first half of this year, we'll continue to benefit the top line over the next few quarters, whereas once we start seeing growth, say, let's say, starts are in the 3% to 5% range, just in a low to mid-single digit general type of guide then, all things being equal, that revenue would normalize to that plus any rate differential that we have based on the tuition rate escalations that occur.

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

Got it. And just -- it seems like the overall increase in the EBITDA guidance for the year seems conservative given the big beat in Q1.

Troy R. Anderson
Executive VP & CFO

Yes. And again, some of that is just moving some of the expenses around the timing of the year. We have a little bit of shuffling of revenue around just based on as we re-project the year some of the start cadence and being able to flow through a portion of the Q1 beat -- so look, we're -- it's early in the year.

We would normally update our guidance, frankly, in the first quarter. Normally, it would be second or third quarter. But given the strong beat and just given our outlook for the year, we're comfortable doing that, and we'll continue to monitor through the year and make other adjustments as we see appropriate.

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

Got it. And then just my last question is on the regulatory front and composite score is what -- where does the compound scores stand now? And is there a target that you'd like to achieve? And does that kind of the number I guess, the attempts are always to try to improve that number? And does that play into how you would think about capital allocation and financing of any of a specific acquisition in the future. [indiscernible].

Troy R. Anderson
Executive VP & CFO

Sure. Yes, we focus heavily on regulatory metrics. We are very purposeful about staying above any thresholds that cause issues in terms of any of our reporting with the Department of Education and any of our creditors. So student outcomes are also very important. As far as composite score. What's interesting about that is, as you know and maybe just for general education for those listening, it's a scale of 0 to 3, but 1.5 and above is basically pass sale.

There's -- you get no benefit out of 1.51 relative to a 3. It's you're just -- you're about 1.5 period, end of story. So we're not managing to get to a 3. I mean, if we get a 3, that's great. There's a lot of math and elements to the equation that drives the composite score. We're above 1.5. We're comfortably about 1.5, and we'll continue to manage above 1.5.

We did dip relative to the prior year because of the acquisition of Concorde. Again, there's a lot of variables that go into the math around that. So we were above the 2, we were at 1.6 this last year. We would most likely be above the 2% again this year as kind of a temporary blip. But again, no impact because above 1.5 is there's -- you're clear of any potential implications with the Department of Ed.

So that's really the primary metric that we look at, but we take it very seriously and we manage our business to ensure that we're delivering that.

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

Congratulations again.

Operator

The next question comes from Eric Martinuzzi with Lake Street.

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

Yes, I wanted to make sure I understood the upward revision to the fiscal '24. Obviously, with no change in the new student starts, this is coming down to sort of the installed base of students outperforming. So I was just curious, is this a little bit better revenue per student maybe than you originally thinking or better retention in the student population? What's the driver on the revenue without the change in new student starts?

Troy R. Anderson

Executive VP & CFO

Yes. Sure, Eric. This is Troy. The Yes, I think it's a little bit more of the population, better performance on the population. Starts were pretty much in line with our expectations. As you said, we're comfortable with the full year guidance range we've given previously, again, early in the year, 4,300 starts out of a 25,000 midpoint. So we have a lot of work to do to lay in the other 21,000 starts for the year, but we feel very confident in that.

And so just a bit better monetization out of the -- coming out of Q4 into Q1, a little bit better persistence, and lower attrition on the installed base, as you said, and we continue to feel good about the performance for the remainder of the year around that.

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

And then the use of cash priorities. You guys have a lot of different directions you can go in. Obviously, M&A has been a key driver of the business. But where do you stack rank? I don't know if you even have the ability post the convertible preferred conversion of share repurchases, but you've got a new programs, new campuses, M&A, buyback, Help me understand the stack rank there.

Troy R. Anderson
Executive VP & CFO

Yes. Our bias is to continue down the path of the growth and diversification initiatives we've been embarking upon in the last few years. We're at the tail end of the work we've done in the last few years with the program expansion new campuses et cetera. We have a few more program expansions, as Jerome commented on earlier plans for this year.

And we're working on what the next round of decisions might be, as Jerome said in his prepared remarks, we're not at the end of our journey. We're building a foundation, and we have a playbook in place, and we're going to continue looking for opportunities to grow and expand, which could be a combination of organic and inorganic initiatives.

Keep in mind, a lot of our cash flow, most of our cash flow is generated in the fourth quarter. So that $62million to $66 million adjusted free cash flow guidance. The majority of that is coming in the fourth quarter. So we don't actually have the cash today. We have -- and I commented on our working capital position in my prepared remarks and we'll be managing the revolver down from the $90 million as we progress through the year and start building up the organic cash, but still expect to have some draw on the revolver even as we exit the year absent any new decisions around that.

So right now, we're executing on our plan for this year. Probably nothing -- we have about $30 million in CapEx in that plan and probably nothing any new decisions we make would really materially impact cash this year, they would probably bleed more into next year and beyond, and our bias is definitely towards continuing on the growth and diversification strategy. At some point, we'll have a consistent steady stream of cash flow -- strong cash flow and above and beyond what we would need to continue investing in the business, and we'll look at that what that broader capital allocation policy might be around return to shareholders and other aspects.

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

Got it. Congrats on a strong quarter and good outlook.

Operator

The next question comes from Alex Paris with Barrington Research.

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

Congrats on the beat and raise. Most of my questions have been asked and answered. But -- so I'll use my time to kind of dive into Concord a little bit more. You've owned it for more than a year now, you bought it on December 1, 2022.

You have said before, step 1 in the acquisition is to first do no harm. And there were some integration activities during the first 12 months. First question, now what, in terms of integration. And then the second and related question is, where can margins go on that business? I think at the time of acquisition, margins were around 8%.

Troy R. Anderson
Executive VP & CFO

Yes. Thanks, Al. This is Troy. So we're still -- we made a great progress last year. We're super pleased with the acquisition and the performance of the Concorde team Jerome commented on Kevin Crane and being a Division President named official Division President, and haven't missed a beat there. So we're really, really excited and pleased with the performance of the team.

The integration this year are now starting to get into things like payroll and benefits and some of the other financial systems and some of the organizational, you'll see reference in our press release and in the Q about some realignments we've done organizationally and the expense allocations associated with that. So we're now really getting into the plumbing of the organization and really more the finance organization, the IT organization, HR, some of those more central support type functions.

So we're doing that kind of work, but that's more background work at this point. And so really, it's now helping them to drive really a growth mindset and an optimization mindset throughout that organization, which they are embracing wholeheartedly and are bringing great ideas to the table, which then feeds into the second part of your question, which is we continue to believe wholeheartedly and that the team does as well that, that can be a mid-teens margin business.

This year, we'll be approaching 10%, maybe tubs 10% was 8% or 9% before we bought them in last year. And so over the next 2, 3 years, maybe, we'll get solidly into the teens and continue to look to drive higher from there. But there's optimizations, there's leverage from growth, which they really didn't have a growth profile, previously modest growth.

But now we're really taking advantage of the opportunities in the market there with some additional marketing dollars and just a change in strategy around marketing, the program expansions -- and so a combination of levers that we believe are available and readily available to really drive that business forward, both from a growth and margin expansion perspective.

Jerome A. Grant
CEO & Director

Yes, I'll just make a couple of comments because Troy hit on most of it. When you really think about unlocking the growth potential of Concorde, there are a couple of things that Troy mentioned, which was during the selling process, usually you don't spend tons of money on your marketing, et cetera.

And so unleashing the upside from a marketing and demand generation standpoint is going very, very well. Number two, the program expansions. Those were something that weren't being invested during the selling process. But now that we've taken control. We accelerated the six programs that we put into place this year and into the beginning of next year.

The last couple of things I'd point to would be we're beginning to work very collaboratively with the Concorde leadership team in two other areas: one, a place where UTI has really differentiated itself in the market, which is industry alignment and B2B relationships is that we really believe unlocking the power of relationships with folks like Heartland, that we mentioned in the speech and taking off from places like tuition reimbursement and scholarship programs to deeper partnerships, the kind of things we do at UTI, B2B relationships, training relationships, things along those lines. Those are things that we're excited about moving forward over the next year.

And then the last place where I think is a significant amount of upside and a differentiator that Concorde will have as well is in the acceleration of growth within their online programs, is that prior to the acquisition, Concorde did a great job filling their campuses and really focused on the local community and the programs that were taught on each individual campus and strong outcomes, strong employer connections, really deep embedding into the community, but not particularly strong in online.

And we believe that's a significant amount of upside for them over the next 24 to 36 months, and we're going to really focus on that with them as well.

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

Great. That's a very thorough answer. I appreciate the additional color. And then I guess my last question would be inorganic growth. M&A, you've been very successful with M&A over the last few years, the acquisition of MIAT and Concorde have been runs, in my opinion. Didn't talk much about it in the prepared comments. I assume these things take a while to close anyway. But what's your thoughts with regard to M&A? And where would you target M&A?

Jerome A. Grant
CEO & Director

Well, you're right. We didn't talk about a lot in our prepared speech because we've got nothing to announce today. And so therefore, not going to talk a lot about it. We have made it clear in the past that we're not done. We are looking in places that -- whether it's geographies or program areas, we think we can accomplish through M&A as well.

And just one example in the health care area, we were incredibly blessed with Allied Health and Dental in the Concorde acquisition, but a very small number of their students and small number of campuses are actually in nursing. And so therefore, that's an area of research where we can look at participating more deeply in the health care arena.

So we are excited about concern as a cornerstone acquisition in health care, and we will likely look to be more aggressive in that space. On the UTI side of the equation, as we've said in the past is when we look at new locations, we also -- or programs that we're not teaching in the location, we also look at inorganic means for entering a market so that we don't have start-up from the very beginning.

It takes about 18 months to get a campus from a warehouse to a campus. And so we'll also look in terms of geography and new program areas to continue to proliferate a broader band of in-demand skills. And when we have something to announce, you guys will be the first to now.

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

That's great. Well, again, in congrats on a strong start to the new fiscal year.

Operator

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

Jerome A. Grant
CEO & Director

Thanks a lot, Dave. I'd like to thank everyone who attended today. As always, Troy and I are going to be available for follow-up questions over the next few days. We look forward to speaking with many of you over that time period. And once again, we look forward to your audience once again in May when we do our second quarter fiscal results. So thanks.

Troy R. Anderson
Executive VP & CFO

Thanks, everybody...

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