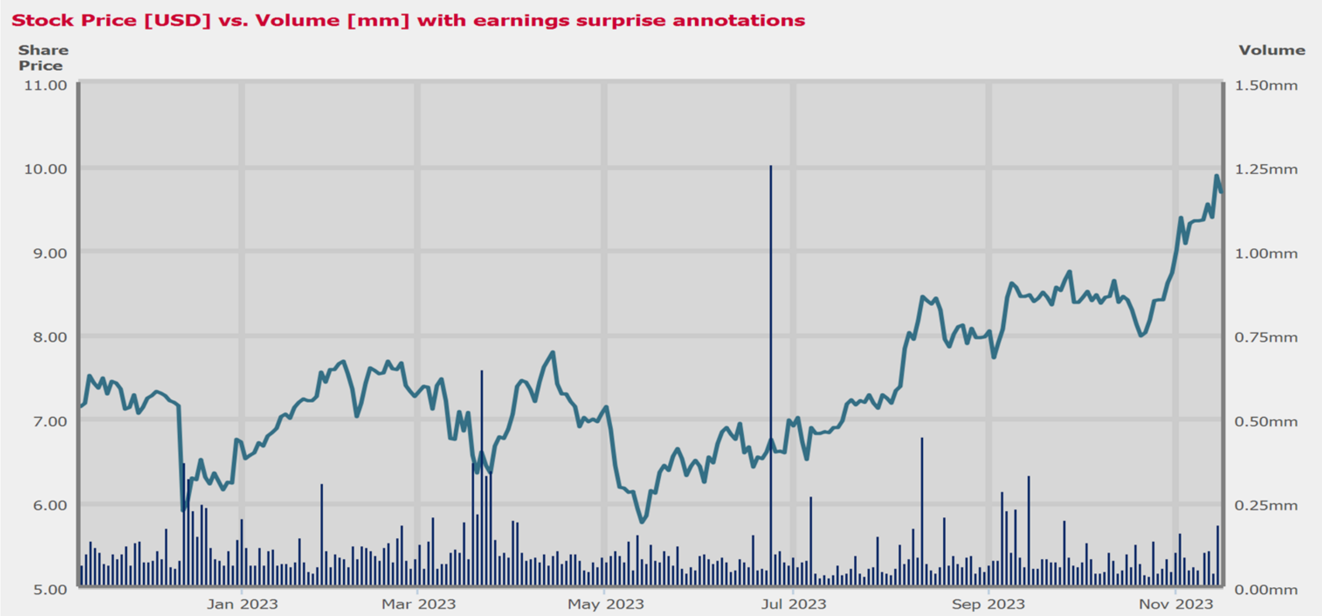
S&P Global
Market Intelligence

Universal Technical Institute, Inc.
NYSE:UTI
FQ4 2023 Earnings Call Transcripts
Wednesday, November 15, 2023 9:30 PM GMT
S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	0.07	0.10	▲42.86	0.04	0.09	0.13	▲44.44	0.62
Revenue (mm)	165.93	170.30	▲2.63	178.54	603.06	607.41	▲0.72	700.26

Currency: USD
Consensus as of Nov-13-2023 12:35 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2023	(0.05)	0.02	NM
FQ2 2023	(0.03)	0.04	NM
FQ3 2023	(0.11)	(0.05)	NM
FQ4 2023	0.07	0.10	▲42.86 %

COPYRIGHT © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Table of Contents

COPYRIGHT © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved
spglobal.com/marketintelligence

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
Barrington Research Associates, Inc., Research Division

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

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

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Good day, and welcome to the Universal Technical Institute Q4 and Full Year 2023 Earnings Call. [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 Fourth Quarter and Full Year 2023 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 the 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 2022. The 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. Fiscal 2023 was a very strong year for the company. We're grateful that you are able to take the time out of your afternoon so that we can share several highlights with you.

First, I'll briefly go over our results for the year and comment on the progress of our multiyear growth and diversification strategy. Following that, I'll share highlights of our Concorde and UTI divisional performance and focus in 2023. Next, since superior student and employment outcomes are central to everything we do, I'll spend a few moments sharing some of the accomplishments and recognitions we achieved this past year. From there, we'll look ahead to 2024. I will both share our formal guidance for the year and outline our areas of focus. At the conclusion of my comments, I'll turn the call over to Troy Anderson, our CFO, to dig in a bit deeper on both numbers and metrics.

With that, let's begin with the 2023 results. We outperformed expectations throughout the fiscal year, demonstrating the strength of our ongoing growth and diversification strategy, the effectiveness of our operating model our team's ability to execute and the flexibility we now have as a multidivisional company. I'd like to thank our faculties, staff and students for their ongoing dedication and hard work and for delivering this fine performance in fiscal 2023.

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

For the full year, we exceeded the high end of our guidance across all key financial metrics delivering $607.4 million in revenue and $64.2 million in adjusted EBITDA, and we performed in line with our ambitious expectations as far as new student starts reaching 22,613 for the year.

Over the past several years, we've consistently delivered on the financial goals we established for our diversified workforce solutions platform. As we emerge from the pandemic in 2021, we hit the accelerator on our multiyear growth and diversification goals. As outlined, when we first announced our acquisition of MIAT 2 years ago and then again when we shared the news about the Concorde acquisition last May, broadening our transportation and skilled trades offering and entering the health care space will significantly propel our growth and diversification efforts forward as well as our overall financial trajectory, all while maintaining our core focus on supporting strong student and employment outcomes in high demand areas.

With our performance this year and with the initiatives already underway, we believe we are well positioned to maintain our momentum into fiscal year 2024.

I'd like to commend both our Concorde and UTI divisional leadership teams for their execution and collaboration over the past year in achieving the results and in building a robust and efficient foundation for future growth. Let's now turn to a few highlights from each of the divisions in 2023. Starting with Concorde, we've seamlessly integrated all critical supporting functions and those related to key public company requirements with the majority of this process behind us, we'll continue to optimize the organizational model and execute on additional integration and synergy opportunities in the years ahead. It's important to underscore that all of this fine work occurred while ensuring the business continues to grow.

Demand for Concorde's programs has remained strong throughout the year. And in September, we began starting students in one of Concorde's new programs, a cardiovascular sonography program in Florida. We also recently launched an online respiratory therapy program as we continue to look at further opportunities to rapidly expand the division's online programming. Concorde's other planned new program launches are on track for the fiscal year 2024 with 3 new programs launching in November.

These include diagnostic medical sonography program and another cardiovascular synography program as well as the first of 3 planned dental hygiene programs. We're working diligently to launch the remaining dental hygiene programs during the fiscal year and are making very good progress towards completing the respective regulatory approvals.

As a quick update, entering fiscal year 2024, we had a change in Concorde's leadership. I've appointed Concorde's Chief Operating Officer, Kevin Prehn, to the Interim Divisional President role. I'd like to thank Concorde's former CEO, Jamie Fraser, for her efforts and support in leading the Concorde team through the closing of the acquisition and the initial integration efforts. We sincerely wish her well.

We have tremendous confidence in Kevin and the Concorde leadership team, their ability to capitalize on the momentum they have established and their ability to achieve the divisional's financial and operational goals for fiscal 2024 and beyond.

Moving to the UTI division. We experienced accelerating year-over-year start growth throughout the year, culminating in 9% growth in the fourth quarter. We expect that trend to continue for at least the first half of 2024, if not beyond. This performance reflects the fact that we delivered on our 2 main growth drivers for the year: our planned new program launches and scaling our 2 newest campus in Austin, Texas and Miramar, Florida.

We launched 13 of the 14 planned new UTI programs across 8 campuses in 2023. We expect to launch the remaining aviation, airframe and power plant technician program at the UTI Miramar campus very soon. Following the completion of the Federal Aviation Administration certification process. which unfortunately has been delayed beyond our control. We have seen strong demand for these programs as well as continued high demand overall across the program portfolio. We started approximately 230 students across these programs in the fourth quarter and believe we will see 1,000 or more new student starts in fiscal 2024.

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

As we have outlined during past calls, these initial program launches are merely the first wave of bringing these in-demand aviation, skilled trades and energy programs that came to us through the MIAT acquisition to the UTI footprint. We have initiated efforts to launch 3 more heating, ventilation and air conditioning programs in fiscal 2024 and a fourth new HVAC program early in fiscal 2025.

Turning to the Austin and Miramar campuses, which launched in 2022, the 2 campuses now have nearly 1,100 students combined, and they are continuing to ramp nicely. Based on this trajectory, we remain highly confident that both campuses will continue to perform in line or above our long-term view with respect to their markets. As an example of this, at our most recent Career Day Open House in Miramar, we recorded extremely strong attendance from both students and employers alike. This signals that the local job market is quite robust and values our graduates. We will continue scaling these campuses and identify future expansion opportunities, leveraging capacity available in each location as well as considering new locations to offer our in-demand programs.

Now superior outcomes are at the center of our schools missions. As a great example of the quality of our programs and partnerships, Concorde schools and employment partners recently received top industry distinction in 2 states. First, Concorde was named School of the Year by the California Association of Private Postsecondary schools in early October. And in Texas, Concorde's Dallas campus received the same distinction from the 200 member Career Colleges & Schools of Texas Association, or CCST. Further, the CCST also awarded the Innovator of the Year award to one of Concorde's Dallas online success coaches, Connie Tipado. Congratulations Connie. We're very proud of these awards, and they recognized Concorde's commitment to excellence in student training and outcomes.

Now alongside these recognitions, 2 of Concorde's long-time dental employment partners, Pacific Dental Services and Heartland Dental, received Employer of the Year awards from the same California and Texas associations, respectively. Both Pacific Dental Services and Heartland Dental as part of their ongoing partnerships with Concorde have worked closely with us to offer scholarships and various on-the-job opportunities designed to help students achieve careers as dental professionals.

These innovative collaborations mirror the partnerships we have historically leveraged in our UTI division, and we will continue expanding these relationships and our network of health care industry partners over time.

Moving to 2024. Our strong execution throughout the fiscal year 2023 has allowed us to enter 2024 on confident footing. As we look to the fiscal year ahead, we're pleased to share with you today our formal full year guidance targets. Revenue will be between $705 million and $715 million. We expect adjusted EBITDA to be between $98 million and $102 million, and new student starts will be between 24,500 and 25,500, which represents an impressive growth rate of between 8% and 13%.

As we introduce these ranges, I'd like to reemphasize that much of the foundation required to achieve these targets has been laid over the past 2 years. Our work in the year ahead of us involves continued execution, delivering against these objectives and building upon the sustainable strategic progress we've made.

Our key focus areas for 2024 all support our broader revenue, profitability and cash generation objectives, while also continuing to support strong student outcomes. These include further ramping our newest UTI campuses to help them reach their fullest potential, driving greater enrollment, revenue and profit growth from both our 2023 and 2024 new program launches in both divisions, enhancing the yield of our marketing and admissions investment to continue optimizing lead generation and inquiry conversion and continuing to optimize our workforce strategies, hiring practices and facilities utilization to maximize operating costs and capital efficiencies, which in turn will drive continued program and margin expansion. I'm proud of our execution over the past year and our positioning for greater growth in the year ahead.

I'd now like to turn the call over to Troy to review our fourth quarter and full year 2023 financial results as well as provide additional detail on our 2024 expectations. Troy?

Troy R. Anderson
Executive VP & CFO

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Thank you, Jerome. I'm happy to report that our revenue, profitability and cash flow performance exceeded expectations for both the fourth quarter and full year. We saw positive contributions from a number of areas that drove the upside versus our expectations, including another strong performance in the quarter from the Concorde team. As a reminder, our reported results include both consolidated and segment views as well as corporate unallocated costs. Please also note that unless stated otherwise, the year-over-year comparisons are on an as-reported basis, as contributions from Concorde are only reflected from the acquisition date of December 1, 2022 and forward.

To summarize our operational performance, we recorded 10,368 total new student starts during the quarter and 22,613 total new student starts for the full year, solidly in the middle of our guidance range. As we previously shared, Q4 is a seasonally high start quarter for both of our divisions. Concorde has 2 large starts for their clinical programs versus 1 in the other quarters, and the number of students starting in core programs is also higher.

On the UTI side, the majority of the high school channel starts occur in the fourth quarter and high school overall contributed approximately 45% of the total UTI division starts for the year. UTI starts were up year-over-year 9% in the fourth quarter and 6% for the full year. Within the UTI division's overall year-over-year start growth, we are pleased to have driven growth in every quarter during the year. In the second consecutive quarter of same campus same program, [indiscernible]. For both divisions, we see this momentum continuing into fiscal year 2024, supported by our proactive grant programs new program offerings and other initiatives designed to better support and engage with prospective students.

Moving to our financial performance. Fourth quarter revenue on a consolidated basis increased 53.9% to $170.3 million, driven by the $55 million contribution from Concorde and 4.2% year-over-year growth for the UTI division. For the full year, consolidated revenue increased 45% to $607.4 million, which was above the high end of our previously revised guidance range. The UTI division contributed $429.3 million and 2.5% year-over-year growth, while Concorde contributed $178.1 million for the 10 months following the closing of the acquisition.

From a profitability standpoint, consolidated net income for the fourth quarter was $6.7 million or $0.10 per diluted share, and for the year was $12.3 million or $0.13 per diluted share. At the end of the quarter, we had 34.1 million shares outstanding. Adjusted net income for the fourth quarter was $8.4 million and for the year was $22.3 million, which was above the high end of our previously raised guidance range. Our 2023 net income performance reflects the higher effective tax rate that resulted from last year's valuation allowance reversal. Along with the impact of certain discrete items during the year, we expect to see a similar effective tax rate in fiscal 2024.

Adjusted EBITDA for the fourth quarter was $19.2 million and were $64.2 million for the full year, which exceeded the top end of our previously raised guidance range. On both the divisional and corporate levels, our focus on expense management and driving continuous operating efficiencies is reflected in our overall profitability performance. Total available liquidity at the end of the quarter was $159.7 million, including $8.2 million of remaining revolver capacity. Total debt was approximately $162 million while net debt was approximately $11 million. Our full year operating cash flow and adjusted free cash flow were both $49.1 million. representing a year-over-year improvement of $3.1 million and $14.2 million, respectively.

The fourth quarter is a seasonally strong quarter for cash generation, and we overachieved our expectations which helped us exceed the high end of our previously raised adjusted free cash flow guidance for the year.

Total capital expenditures for the year were $56.7 million, a 29% decrease relative to fiscal 2022. The primary drivers of our CapEx for the year include the $26 million purchase of the 3 primary buildings and associated land at the UTI Orlando campus, the completion of the UTI Austin and the Miramar campus build outs. The UTI and Concorde program expansion and maintenance CapEx associated with equipment, facilities, curriculum and other items. It is important to note we consistently manage our maintenance CapEx to approximately 2% of revenue. which is a relatively modest amount.

Given the strength of our execution throughout fiscal 2023 as well as the current visibility and momentum we are carrying forward, we have a high degree of confidence in the formal guidance ranges we are

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

providing for fiscal 2024. I'll highlight that the revenue and adjusted EBITDA ranges are consistent with, if not on the upside of the 2024 projections we have previously communicated, underscoring the visibility and predictability we have been building into our business model over the past several years.

For revenue, we expect to generate between $705 million and $715 million for the fiscal year or 16% to 18% year-over-year growth. The growth is driven by the full year of contribution from Concorde along with greater contributions from recent and forthcoming program expansions, the strong new student start performance this past year and organic new student start growth during the year from both divisions. While we expect to generate strong revenue growth each quarter, we are anticipating particular year-over-year strength in the first quarter as we record a full quarter of contribution from Concorde.

For the remaining quarters, we expect revenue growth in the upper single digits to low double digits driven by the ramping program expansion and the momentum in student start growth across both divisions throughout 2023 and continuing into 2024.

We expect full year adjusted EBITDA to range between $98 million and $102 million, which is more than 50% year-over-year growth. The growth reflects the significant revenue increase including the full year Concorde contribution, increased yields from our new campus and program expansion investments and overall improved operating leverage from our fixed and selling, general and administrative costs. With our current visibility, we anticipate generating solid growth each quarter, with the strongest growth in profitability overall in the second half of the year.

Note that since we first announced our acquisition of Concorde we have outlined the intent to expand their adjusted EBITDA margins ultimately into the mid-teens. Following our initial focus and investment related to integration and public company readiness, we expect to approach double-digit margins for the division in fiscal 2024 and drive additional margin expansion from there.

For fiscal 2024, we are replacing adjusted net income as a guidance metric and are introducing GAAP net income and GAAP earnings per share guidance as we believe these metrics are better suited to our sustained and expanding profitability profile.

For net income, we expect a range of $34 million to $38 million, tripling our fiscal 2023 GAAP net income and for diluted earnings per share, we expect a range of $0.53 to $0.58 per share. From a quarterly phasing perspective, we currently anticipate measurable year-over-year growth for both metrics every quarter and overall in the back half of the year, particularly in the fourth quarter, driven by the seasonal strength in both divisions. We expect full year adjusted free cash flow to range between $62 million to $66 million. Consistent with our historical cadence, we expect the bulk of the cash generation and year-over-year growth to come in the fourth quarter. Note, we expect fewer adjustments this year given the lower growth investment activity currently planned for the year, thus unadjusted free cash flow will also be very strong.

Finally, alongside these financial expectations, we expect total new student starts to range between 24,500 to 25,500 or total year-over-year growth of approximately 8% to 13%. We expect robust start performance in Q1 as we benefit from Concorde's full quarter contribution, complemented by continued strong start growth in UTI from both the program expansions and same-campus same program growth.

Thereafter, we expect continued double-digit growth in the second quarter and then stabilization in the low to mid-single digits in the third and fourth quarters as we complete the initial ramping of our prior program and campus growth investments, as well as mature the grants and other enhancements we have been implementing and refining over the past year or so. Included in these expectations is annual seasonality within the Concorde clinical programs or certain programs have fewer start opportunities in fiscal 2024 than they did in fiscal 2023.

To expand on Jerome's earlier comments, our performance on each of these fronts over the next year is largely built upon continuing our solid operational execution and ramping initiatives we already have in place. We expect to continue scaling the newest UTI division campuses and the newly launched programs in both divisions, driving greater growth as they reach maturity.

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Further, we aim to launch additional programs, rolling out expanded offerings within both divisions during the year. We are also targeting margin expansion through increasing our operating leverage with specific focus on optimizing our labor force and facilities utilization across both divisions.

With the current strength of our balance sheet and the implementation of various growth investments over the past few years, we remain focused on ramping the yield of these investments and staying flexible in identifying further strategic areas to deploy capital to support growth in 2024 and beyond.

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, including our non-GAAP reconciliation tables and bridges between our 2023 performance and the 2024 guidance ranges we announced today. We very much appreciate the ongoing commitment and support from our team, students and partners as we continue executing on our growth and diversification strategy.

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

Jerome A. Grant
CEO & Director

Thank you, Troy. As we close today's call, I want to briefly review our progress against our growth and diversification strategy. But first, I'd be remiss if I didn't highlight that by achieving our fiscal 2024 guidance, we yield more than double the revenue from fiscal 2021 and nearly tripled adjusted EBITDA. The 4 pillars of this successful strategy have included new campuses, program expansions, inorganic growth and business model extensions. In the past fiscal year alone, we swiftly ramped our 2 newest UTI division campuses, launched 13 new UTI division programs and 2 new health care programs and acquired and integrated Concorde Career Colleges, which will serve as a cornerstone for our newly formed Healthcare division.

Our outperformance throughout 2023 demonstrates the consistency of our execution on our foundational strategy as well as delivery against the objectives we set for the company over the past several years. By exceeding our financial targets, launching key program expansions and propelling new student growth across both divisions, we will have generated robust and strong momentum for 2024. In 2024, we will continue to execute on our strategy of growth and diversification, along with a key focus on optimization by both UTI and Concorde divisions. To drive greater margin expansion, we aim to optimize our workforce and facilities utilization to improve overall operating leverage. Our growth expectations will take full advantage of the platform we strengthened in 2023. We will continue ramping our 2 newest UTI division, campuses in Austin and Miramar as well as the start growth for our newly launched and forthcoming programs across the UTI and Concorde divisions.

I'd like to conclude by emphasizing that our current position is not the endpoint of our company's growth strategy. As we've demonstrated through acquiring Concorde, our entry into the health care space, expanded our ability to deliver new workforce solution opportunities in high-growth sectors.

Our extensive program and corporate partnership network and our commitment to positive student outcomes gives us the flexibility to deepen our footprint and pursue further diversification pathways for growth. We'd like to thank our team and shareholders for their support and we look forward to executing on the next phases of our growth plans in fiscal 2024 and beyond.
I'd now like to turn the call over to the operator for Q&A. Operator?

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

[Operator Instructions]. Our first question comes from Eric Martinuzzi with Lake Street.

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

I wanted to ask about the outlook for 2024 and just get a better understanding of the growth drivers there. It looks like in the slide deck, you outlined 4 different drivers, a full year of Concorde kind of the program expansions, UTI organic and then Concorde organic. Just is it kind of parsing that $103 million delta. What are the bigger drivers, if you could kind of stack rank them for me?

Troy R. Anderson
Executive VP & CFO

Yes. Sure, Eric. This is Troy. We've tried to make those proportional. Obviously, there's no numbers on the page. They're bridging to the midpoint. You said they're approximate from a contribution perspective, but you nailed the 4 categories on the start slide, certainly, the full year of Concorde, we only had the December month last year. So we did a -- get a clinical start, which we didn't get last year in November, plus we get 2 more core starts. So that's a pretty good sized contributor there.

And then the program expansion, the UTI organic are roughly equivalent in their contribution in the year. Jerome actually commented on that in his in his prepared remarks, we did approximately 230 starts on the UTI program expansions, a much smaller number on the Concorde program expansions in '23, and then we'll get -- we're expecting maybe around 1,000 or so plus or minus out of the UTI side. And again, the Concorde programs have much more extended start dates between them in their smaller cohorts. So 50 to 100 probably in those. And then the organic is, frankly, pretty modest low-ish, low to mid-single-digit type growth out of both UTI and Concorde.

On start side, the revenue kind of flows with that fairly consistently. And then the EBITDA, you see some differentiation there mainly because of the operating leverage that both Jerome and I commented on, as you know, coming out of '22 into '23, we had some pressure on our operating leverage given the '22 start performance, and we get a bit of the opposite impact, plus we've been driving efficiencies in our operations this year. So we see much more leverage on the upside from the growth profile.

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

Got it. Okay. And then on the macro environment, Jerome, we're still not talking about I guess, a supportive employment picture, it's still less than 4% on the unemployment numbers here. You guys are kind of -- not kind of, you are outperforming, so do you consider the macro kind of returning to supportive? Or is there still neutral and you guys are kind of powering through despite inflation and interest rates?

Jerome A. Grant
CEO & Director

Well, the numbers that Troy just outlined for you, the organic growth numbers, et cetera, are really point to a posture of saying we're not looking for any big tailwinds yet from a macroeconomic standpoint. It's too soon to predict anything along those lines. But I think as we've said in some of our last quarterly updates, we're not seeing as strong a headwind as we've seen in the past, a combination of, I think, people settling into the new normal as I've said it before, and really starting to think about what's a durable career path that may be in a recession or inflation proof as they move forward. And so as we've also said, neither Troy or I are economists, don't claim to be. But -- and the numbers that we put out, we think are rational, but not overly exuberant about any big repair in the economy throughout the throughout the year.

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Operator

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

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

Some of my questions were already answered. If you could give me -- give us a little bit more color on I know you've broken down the student starts in terms of young adults, but do you expect the same sort of performance to continue in fiscal '24 high-schoolers versus young adults that are [indiscernible] geographic programs.

Jerome A. Grant
CEO & Director

Yes. I think -- Yes. Troy can give you a little more color on some of the numbers. But I think sort of thematically as we came into the second half of 2023, the tide turn on growth in the UTI side of the business, we've seen pretty steady growth on the Concorde side. the demographic there being a 25- to 30-year-old person who's been out in the world, has made some decisions, is making a rational decision following through on those and also that the health care opportunities are extraordinary.

So we saw a turn in the second half of 2023. we're into November on the first quarter, and we're feeling very, very good about what we're seeing in the first quarter in terms of continued steady growth. I think as I said to Eric on the last call, I don't see any exponential tailwind that's behind us that would give us something beyond what we put in the numbers right now, but we're very comfortable with what we're seeing in the numbers based on what we saw in the third quarter, the fourth quarter and now as we're projecting through the first quarter of '24.

Troy R. Anderson
Executive VP & CFO

Yes. Raj, this is Troy. The mix, I did comment on high school specifically, 45% of the total. This is for UTI. Military is always in that 15-ish, 13% to 15-ish range and adult makes up the difference. In any given year, we might have a plus/minus a few points of swing, frankly, mainly between high school and adult, but we don't expect anything dramatic there. We talked throughout the year and coming out of last year about investments we made in high school from a field rep resource perspective. We have some new leadership there as well. And so we are expecting an even stronger performance in high school in '24 than we had in '23, and we've been transforming the adult side as well.

We've talked about leveraging call center capabilities more. We talked about the local versus [relo] and the shorter start times. And so again, I think we have different things going on in the different channels, net-net, not a material change probably in the overall mix, but some good tailwinds from a capability and performance perspective coming out of '23 into '24.

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

Got it. Great. And then just moving on, could you comment on the regulatory impact in and maybe the 90-10, what numbers you're exiting with and also any impact there would be on UTI or Concorde of gainful employment updates.

Troy R. Anderson
Executive VP & CFO

Sure. Yes. This is Troy. The 90-10 again, we're in the high 60s on an aggregate basis, and it's measured at the OPEID or the school level. But when you aggregate it all up, in the high 60s. We -- some of the Concorde campuses are in the 80s but they don't have a very high military percentage. So again, it's switching from the new rule goes into effect for us for fiscal '24, where the military contribution will now count in the '90s, but we don't expect any of our schools to touch the wire on 90% and only 1 or 2, again, on the Concorde side, even being in the upper 80s. So we're very comfortable in the 90/10 profile.

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

The gainful, we've done -- those rules have just been finalized the first reporting period will be next summer or we don't see any material risk or, frankly, really any risk at all. If there is, it's a very small niche program, probably mainly on the Concorde side, but we're not concerned about anything we're seeing on the gainful side. And again, we continue to focus on graduation rates, employment rates and we just kind of start ACCSC reporting cycle, which is the primary creditor across both Concorde and UTI and once again, we have consistently strong performance there, never always 100% perfect, but we're consistently strong, and we think that record stands against anybody in the industry.

Operator

The next question comes from Alex Paris with Barrington Research.

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

Congrats on the strong finish to the fiscal year. So a lot of my questions have been asked and answered, but I have a couple of follow-ups from previous questions. So with regard to starts enrollment revenue, you said that you're not getting much of a tailwind at this point from rising unemployment because it hasn't really risen to significantly yet at this point. But it's less of a headwind. It's good to hear. I'm wondering to what extent do you attribute your strong growth to prospective students evaluating alternatives to 4-year colleges. This has been a trend that's been noted in the press. Are you seeing some lift from that?

Jerome A. Grant
CEO & Director

Well, I mean, we're thrilled to see the press engage on the notion that college isn't for everyone. It's something that we try to get the message out as strongly as we can to, in a sense, give people permission to choose something other than a traditional 4-year degree if they're not so inclined to move down that path.

Anecdotally, we don't have hard evidence because it's really tough to track when you're talking to a prospect or you're trying to decide between us and going to a 4-year school. But we are seeing anecdotally more students that from a profile standpoint, traditionally may not have chosen a 2-year school or a tech school, talking about socioeconomic backgrounds, faster qualification backgrounds, et cetera. So there's starting to be a little bit of a hint out there that people are seeing these high demand skills areas for what they are, which is really solid long-term career. So it's good to see that the message is starting to flow through.

Troy R. Anderson
Executive VP & CFO

The other thing I would add, Alex, is that we brought in -- and again, on the UTI -- Concorde has a very broad offering portfolio. And now as we brought in the UTI portfolio that we've always said, we're talking to hundreds of thousands of prospective students lead generation every year, but historically, UTI only had a handful of programs to offer them. Now as we broaden that portfolio, there's more for us to talk to prospective students about and supports a growth trajectory.

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

Are the enrollment counselors brought together? Or are they separate between UTI and Concorde and does an enrollment counselor at one or the other institution have the ability to cross-sell the other?

Jerome A. Grant
CEO & Director

That's a great question. We have not brought them together. I think one of the things you've heard from us over the last few quarters is that our collaboration or operational integration strategies that are being explored for Concorde and UTI were not something we engaged on last year. .

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Last year, we engaged on regulatory issues, controls, back-end, HR, benefits, things along those lines that would not disrupt the trajectory of the business in 2023. As we've turned the page into 2024, we're spending significantly more time talking about collaboration ideas. There's a large population of the admissions enrollments that enrollment counselors that we wouldn't look at that collaboration because you know that many of them are very local on the campus, taking people who are touring specific campuses for specific reasons. And of course, that would keep them separate.

But as you take a look at how we may want to represent health care in the high schools or in the military. That's something we're taking a very serious look at right now, specifically the military, which has got a I think, a great opportunity for us to be significantly more aggressive in the way we represent health care professions as people rotate out of the military.

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

That makes sense. That's helpful. I appreciate that color. And then a question on inflation and its impact on fiscal 2023, looks like in inflation has peaked, and it is receding. What's your experience within UTI and Concorde with inflationary pressures, salaries, the ability to bind instructors, et cetera?

Jerome A. Grant
CEO & Director

Well, two things. One, I think one of the things we've commented on and continue to comment on is, I think the sort of peaking and beginning to subside of the inflationary pressures has created sort of a posture of the new normal out here. I was watching the news this morning, and they were talking about how gas has gone down to $3.39 a gallon here in Phoenix, and they were high-fiving each other about it, where just a few years ago, that would have been something you didn't do. So the new normal, I think, is really out there. And we're really seeing that in our prospects where people are like listen, being an Amazon driver isn't a career, and I really want to look at something that's durable, good pay, great demand.

And so I understand that I'm paying more for all of these things, but this is something I want to get on with in my life. And so what we've really seen is more people who, in the past, meaning '22 and '23 were saying to us, I'd love to do this, but I just can't afford it, now saying it's time to get on, right? And so have we seen a huge rush? No, no, we haven't. But the conversations certainly have changed with the prospects.

Troy R. Anderson
Executive VP & CFO

Yes. And Alex I don't know, I think maybe you were also asking about our cost structure. But just a quick comment there. I mean, again, we commented on it in prior calls. The -- on the healthcare side, it's more a dynamic of just the supply and demand of health care workers and many of the Concorde instructors in particular, are active health care workers, and they're adjuncts from a teaching perspective. So that does put a little bit of extra pressure on the Concorde side that's different than the UTI side.

But generally speaking, we are not having trouble staffing. We have actually seen a little bit less pressure this past year as well as in some more of the enterprise type functions, IT, finance, et cetera. definitely have seen some pullback. In fact, we're seeing a lot of resumes for some of the positions we're posting here recently. So moving in the right direction there.

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

Great to hear. And then the last question is related to your Series A preferred stock. As I recall, you are able to force conversion if the VWAP equals or exceeds $8.33 a share for 20 consecutive days. It seems like we almost get there repeatedly and we don't just quite get there. Where do we stand now? When would you expect that, that would be -- this was a great earnings report, so I don't think you're going to

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

backtrack. And then once converted, what's the dilution thought? There'll be 20 million more shares, but of course, you don't have the preferred dividend any longer.

Troy R. Anderson
Executive VP & CFO

Sure. And this is Troy. I mean, certainly, given the trading we saw exiting the last window throughout the -- in between period and hopefully, momentum we're carrying here into out of this earnings release and into the next window, which opens on Monday, we're optimistic that we will achieve the company trigger. It is 20 consecutive trading days. within an open window, volume-weighted average share price above $8.33 or above. And we're -- knock on wood.

We will get there in this window. The overall dynamics though, on an EPS perspective, we don't because of the way we calculate our EPS, we're doing it on the 2-class method. The converted shares are already -- we basically are portioning net income between converted shares and unconverted or the common shares and the unconverted shares already. So there's really no meaningful impact on EPS other than the preferred dividend. It will be a little over 20 million shares that would conversely go to $54 million and change in total outstanding shares, but it doesn't really -- you get to the same number different -- in a different formula from an EPS perspective.

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

Congratulations on the quarter.

Operator

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

Jerome A. Grant
CEO & Director

Well, thank you very much for joining us, everyone. This concludes our call for this quarter. I want to wish everyone a safe, healthy and happy holiday season, and we look forward to following up with many of you over the next couple of days. And if not, we will talk to you again in late February. Thank you.

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

Copyright © 2023 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2023 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2023 S&P Global Market Intelligence.