

Adtalem Global Edu (ATGE)

\$34.97 (As of 01/01/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: F

Summary

Shares of Adtalem have witnessed a decline in the past year. Adtalem has been witnessing weak earnings due to higher investments in marketing and student recruitment in order to boost enrollments and revenues. It also expects to incur more marketing expenses in the first half of fiscal 2020. Additionally, restructuring charges are adding to the woes. That said, Adtalem has been undertaking initiatives for achieving strong multi-year organic growth. Although its cost-saving initiatives, transformation strategy and continued focus on stackable programs should drive growth, we wait for better visibility. Bottom-line estimates for fiscal 2020 have been stable over the past 60 days.

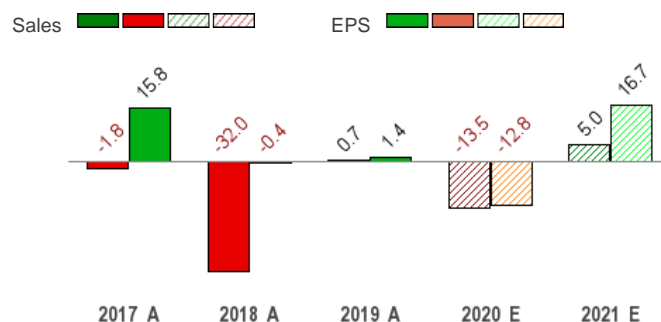
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.79 - \$27.58
20 Day Average Volume (sh)	396,509
Market Cap	\$1.9 B
YTD Price Change	-26.1%
Beta	0.87
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Schools
Zacks Industry Rank	Bottom 17% (210 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-26.1%
Last Sales Surprise	-15.8%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	12.8
P/E F1	14.2
PEG F1	1.1
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,127 E
2020	255 A	262 E	274 E	282 E	1,073 E
2019	284 A	317 A	309 A	330 A	1,240 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.87 E
2020	\$0.34 A	\$0.55 E	\$0.76 E	\$0.83 E	\$2.46 E
2019	\$0.45 A	\$0.74 A	\$0.68 A	\$0.97 A	\$2.82 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/01/2020. The reports text is as of 01/02/2020.

Overview

Adtalem Global Education Inc. is a leading global education provider and the parent organization of Adtalem Educacional do Brasil, American University of the Caribbean School of Medicine, Becker Professional Education, Carrington College, Chamberlain University, DeVry University and its Keller Graduate School of Management, Ross University School of Medicine and Ross University School of Veterinary Medicine. These institutions offer a wide array of programs across medical and healthcare, financial services, and business and law.

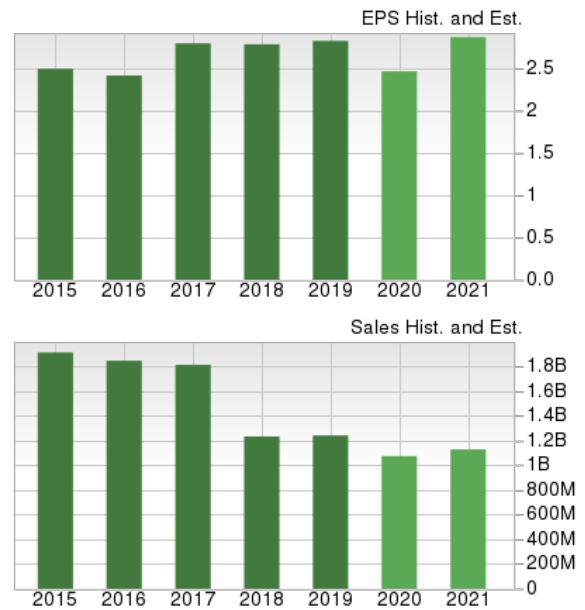
The company reports operating results under three segments. During the fourth quarter of fiscal 2019, it renamed two segments to better focus on growth strategies. The company renamed Professional Education to Financial Services, and Technology and Business to Business and Law.

Medical and Healthcare (contributing 81.5% of fiscal first-quarter 2020's total revenues): The segment includes operations of Chamberlain University, and the medical and veterinary schools (comprising American University of the Caribbean School of Medicine or AUC, Ross University School of Medicine or RUSM, and Ross University School of Veterinary Medicine or RUSVM).

Financial Services (18.5%): This segment includes operations of Association of Certified Anti-Money Laundering Specialists or ACAMS, Becker Professional Education or Becker, OnCourse Learning or OCL and EduPristine.

As of Sep 30, 2019, Adtalem eliminated the Business and Law segment that comprised Adtalem Education of Brazil ("Adtalem Brazil") and classified it as discontinued operations.

Home Office and Other includes activities, which are not related to any reportable segment and are required to reconcile segmental results.



Reasons To Buy:

- ▲ **Collaboration and Innovation to Drive Growth:** Adtalem laid out plans to ensure a balanced focus of investment initiatives to deliver direct returns to shareholders. Firstly, the company will be paying more emphasis on partnering with corporations, hospitals, government agencies and professional organizations to design education programs aimed at teaching new skills to employees.

Also, increased number of short-term programs will be introduced which are more directly aimed at meeting student's preference and employer's needs. Such programs are expected to drive enrollments, which will boost revenues. In fiscal first-quarter 2020, the company recorded year-over-year growth of 2.3% in new student enrollment. It keeps on collaborating with different institutions to boost student enrollment.

Additionally, the company continues to expand in Asia and the U.K. and the greater European market. Also, the company looks forward to expand in Latin America and has completed anti-money laundering training session with Panamanian government officials. Moreover, the company will continue to leverage organizational synergies and expand efficiency initiatives across the enterprise. On May 31, 2019, it acquired the financial services division of OnCourse Learning to broaden reach across the governance, risk and compliance sectors as well as boosted its ability to meet employers' requirements in the dynamic financial services industry.

Adtalem is committed to working directly with a range of stakeholders that includes the administration in Congress to implement regulatory initiatives to strengthen its industry in addressing issues of access, affordability, quality and innovation.

- ▲ **Cost-Saving Initiatives Progressing Steadily:** In order to address increasing cost pressure, Adtalem undertook cost-saving initiatives like workforce reduction and curbing discretionary spending. The company is following a strict cost-control routine, with special emphasis on controlling and escalating costs at some of its institutions. Also, tie-ups and collaboration with different organizations are allowing Adtalem to reduce exposure to Title IV funding. Notably, the company fulfilled its goal of limiting federal funding revenues to 85% by the end of fiscal 2018.

In fiscal 2019, Adtalem's adjusted operating income and earnings grew (although slightly) on a year-over-year basis, backed by strong demand, employer partnerships and superior student outcomes despite top-line challenges in Brazil. Notably, for fiscal 2020, it expects adjusted earnings per share to grow 7-9% year over year. The company believes that its portfolio management approach and effective cost management will help drive sustainability in revenues and EPS growth over the long term.

- ▲ **Healthcare Institutions Driving Sales/Earnings:** Adtalem's health care and international institutions have shown significant improvement in revenues and profitability since fiscal 2013. In particular, health care institution Chamberlain's new and total student enrollment remained solid in the fiscal first quarter, improving 2.9% and 1.4%, respectively, from a year ago.

This university remains well positioned to gain from growing demand for nurses, and the increasing roles they play in the healthcare industry. The company has plans of capitalizing this supply-demand imbalance in nursing and the broader healthcare industry by investing in new programs in markets where it sees the maximum demand. The company is optimistic about the demand trend in the medical and healthcare segment from both students and employees.

Adtalem has undertaken various initiatives to drive the segment's performance going forward. The company implemented modification in its pricing model in certain markets to better align advertised credit hour price. Also, it introduced evening and weekend classes to attract more students. These initiatives are likely to drive the segment's revenues in the future.

The company's cost-saving initiatives, transformation strategy and continued focus on stackable programs that are aligned with key growth areas should drive growth

Reasons To Sell:

▼ **Higher Costs & Expenses:** Adtalem's bottom line has been pressurized by certain restructuring charges related to the impairment of land, buildings and equipment at the Dominica campus of RUSM and severance related to workforce reductions in Dominica. In fiscal 2018, it recorded charges related to workforce reductions and real estate consolidations at the medical and veterinary schools, Becker Europe, and Adtalem's home office. Notably, in fiscal 2019, the company reported restructuring-related expenses of \$55.9 million, which was 4.5% of total revenues compared with 0.4% in fiscal 2018. Again in fiscal first-quarter 2020, the same represented 16.7% of total revenues compared with 1.4% in year-ago period.

Also, increased marketing-related expenses are weighing on the company's profits. This is evident with the decline in operating profits in the Medical and Healthcare segment during fiscal 2019. The company projects to incur more marketing expenses in the first half of fiscal 2020 than the second half of fiscal 2019. In fiscal first-quarter 2020, the segment's adjusted operating income declined 29.6% from a year ago due to the above-mentioned headwinds. Markedly, Student Services and Administrative expenses, as a percentage of total revenues, grew 250 basis points from the year-ago period.

Shares of Adtalem have declined 25.6% in the past year against its industry's 46.5% growth.

▼ **Improving Employment Scenario Lowers Demand:** As the employment situation is improving, more adult students are opting for jobs and the demand for academic programs have declined. There is reluctance among students to enroll in academic programs and take loans to fund them. They would rather accept whatever job offer they can get and pay their bills. It will take some time for students to realize that better education and skills will improve their career prospects in the years to come, compared to the low skill or no skill jobs that they are currently engaged in. As such, demand for academic programs is not likely to improve significantly in the near term.

Per the U.S. Bureau of Labor Statistics, unemployment rate in October 2019 fell 2 percentage points to 3.6% from 3.8% reported in the comparable year-ago period. The recent data reflects improving employment situations.

▼ **Highly Regulated Industry:** Adtalem is subject to risks related to Title IV program integrity regulations. Adtalem derives a significant portion of its revenues from federal student financial aid programs, referred to as the Title IV programs, which are administered by the Department of Education (DoE). The Title IV programs include loans given directly to students at lower than market interest rates by the DoE. In order to remain eligible to participate in the Title IV funds, the company has to follow certain extensive rules/regulations.

These include maximum student loan default rates, maximum debt-to-earnings ratios of its graduates, limitations on the proportion of its revenues that can be derived from federal student aid programs, elimination of incentive compensation to admissions advisors, standards of financial responsibility and administrative capabilities. If the company fails to comply with these rules, its institutions may lose eligibility to participate in Title IV funds.

Moreover, budget constraints in states that provide state financial aid to Adtalem students could reduce the amount of such aid, which would affect enrollment growth and adversely affect the 90/10 Rule percentage.

As the employment situation is improving, more individuals are opting for jobs and the demand for academic programs is declining, thereby hampering growth prospects of for-profit education companies

Last Earnings Report

Adtalem's (ATGE) Q1 Earnings Miss Estimates, Down Y/Y

Adtalem Global Education Inc. reported first-quarter fiscal 2020 results, with the top and the bottom line lagging the Zacks Consensus Estimate.

In the quarter under review, the company reported adjusted earnings of 34 cents per share, which missed the consensus mark of 46 cents per share by 26.1%. Earnings also declined 22.7% from a year ago quarter's reported figure. Higher investments in marketing and student recruitment to boost enrollments and revenues have negatively impacted operating income as well as profits.

Owing to the recently-announced agreement to divest Adtalem Educacional do Brasil, which represents the entire Business and Law segment, the segment is reported under discontinued operations.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	-15.83%
EPS Surprise	-26.09%
Quarterly EPS	0.34
Annual EPS (TTM)	2.73

Revenues & Operating Discussion

Revenues of \$254.6 million also lagged the consensus mark of \$302.5 million by 15.8%. However, the figure increased 7.5% year over year. During the fiscal first quarter, enrollment of new students increased 2.3% and total students grew 0.4% year over year.

Adjusted operating income totaled \$27.5 million compared with \$36.2 million in the prior-year quarter.

Segment Details

Medical and Healthcare: Revenues in the segment rose 2.7% from the year-ago quarter's figure to \$207.5 million. Chamberlain University's revenues increased 2.5% year over year.

In the fiscal first quarter, new and total student enrollment increased 2.9% and 1.4% year over year, respectively, in Chamberlain. The upside was mainly driven by growth in Bachelor of Science in Nursing and graduate programs including Master of Social Work.

Medical and Veterinary schools' revenues grew 2.9% year over year. New and total enrollment in the September session dipped 1.9% and 4.7% year over year, respectively.

Adjusted operating income during the quarter was \$28.6 million, down 29.6% from the prior-year quarter's level. The decline was caused by elevated marketing-related expenses and higher corporate allocation expenses.

Financial Services: Revenues in the segment totaled \$47.1 million, up 32.2% year over year. Revenues at Becker increased 0.3% year on year and that of Association of Anti-Money Laundering Specialists rallied 37.4% from the year-ago quarter's tally. However, adjusted operating income declined 13.5% from the prior-year quarter's tally to \$4.1 million.

Liquidity & Cash Flow

As of Sep 30, 2019, Adtalem had cash and cash equivalents of \$121.1 million compared with \$204.2 million on Jun 30, 2019. In the fiscal first quarter, cash provided by operating activities totaled \$47.5 million, down from \$78 million in prior-year quarter.

Fiscal 2020 Outlook

Total revenues are projected to increase 5-7% year over year. Moreover, adjusted earnings per share (EPS) are anticipated to rise 7-9% on a year-over-year basis. Capital spending is expected in the range of \$45-\$50 million. The effective income tax rate for the fiscal is expected in the range of 19-20%.

Recent News

Adtalem & CDEMA Unite to Boost Caribbean's Disaster Issues- Dec 12, 2019

Caribbean Center for Disaster Medicine ("CCDM"), a unit of Adtalem Global Education's American University of the Caribbean School of Medicine, has partnered with Caribbean Disaster Emergency Management Agency ("CDEMA") to enhance the region's disaster-related medicine education and training.

Adtalem, Sana Labs to Boost Students' Learning Experience - Nov 21, 2019

Adtalem Global Education Inc.'s unit — Becker Professional Education — announced its partnership with Sana Labs, an artificial intelligence (AI) company, to deliver a new AI-powered approach that will optimize student learning for CPA Exam. The collaboration will deliver personalized review sessions based on spaced repetition, content similarities and knowledge-gap predictions. The sessions will be powered by the Sana AI technology.

Valuation

Adtalem's shares are down 25.6% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 46.5% and 29.8% over the past year, respectively.

The S&P 500 index is up 30.7% in the past year.

The stock is currently trading at 13.12X forward 12-month price to earnings, which compares to 36.97X for the Zacks sub-industry, 23.69X for the Zacks sector and 20.29X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.46X and as low as 6.5X, with a 5-year median of 12.59X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$37 price target reflects 2.67 X forward 12-month earnings.

The table below shows summary valuation data for ATGE

Valuation Multiples - ATGE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.12	36.97	23.69	20.29
	5-Year High	19.46	38.01	23.69	20.29
	5-Year Low	6.5	15.52	16.17	15.17
	5-Year Median	12.59	28.03	20.07	17.44
P/B TTM	Current	1.45	6.69	3.55	4.41
	5-Year High	2.37	11.19	5.04	4.42
	5-Year Low	0.64	5.15	3.13	2.85
	5-Year Median	1.41	8.51	4.29	3.6
P/S F12M	Current	1.75	4.58	2.45	3.51
	5-Year High	2.66	6.82	3.19	3.51
	5-Year Low	0.55	3.02	1.81	2.54
	5-Year Median	1.25	4.36	2.55	3

As of 12/31/2019

Industry Analysis Zacks Industry Rank: Bottom 17% (210 out of 253)



Top Peers

Career Education Corporation (CECO)	Outperform
American Public Education, Inc. (APEI)	Neutral
Bright Horizons Family Solutions Inc. (BFAM)	Neutral
Grand Canyon Education, Inc. (LOPE)	Neutral
Strategic Education Inc. (STRA)	Neutral
Universal Technical Institute Inc (UTI)	Neutral
GP Strategies Corporation (GPX)	Underperform
K12 Inc (LRN)	Underperform

Industry Comparison Industry: Schools				Industry Peers		
	ATGE Neutral	X Industry	S&P 500	LOPE Neutral	LRN Underperform	STRA Neutral
VGM Score	D	-	-	D	F	C
Market Cap	1.93 B	773.25 M	23.93 B	4.62 B	833.44 M	3.49 B
# of Analysts	2	1.5	13	2	3	2
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	1.51%
Value Score	B	-	-	D	C	D
Cash/Price	0.07	0.24	0.04	0.03	0.20	0.13
EV/EBITDA	9.37	10.83	13.95	14.56	5.75	89.26
PEG Ratio	1.07	1.45	2.12	1.16	1.57	1.60
Price/Book (P/B)	1.45	2.42	3.33	3.35	1.33	2.42
Price/Cash Flow (P/CF)	8.97	18.33	13.67	16.34	7.53	26.85
P/E (F1)	14.14	23.97	19.66	17.46	23.57	23.97
Price/Sales (P/S)	1.59	1.46	2.69	6.22	0.82	3.58
Earnings Yield	7.03%	4.17%	5.08%	5.73%	4.23%	4.17%
Debt/Equity	0.39	0.31	0.72	0.17	0.03	0.00
Cash Flow (\$/share)	3.90	0.54	6.94	5.86	2.70	5.92
Growth Score	D	-	-	D	F	A
Hist. EPS Growth (3-5 yrs)	2.24%	6.91%	10.56%	20.32%	6.98%	6.85%
Proj. EPS Growth (F1/F0)	-12.77%	0.00%	0.00%	10.96%	-5.13%	43.51%
Curr. Cash Flow Growth	-3.44%	-2.51%	14.83%	15.13%	5.57%	147.33%
Hist. Cash Flow Growth (3-5 yrs)	-3.22%	7.46%	9.00%	19.94%	-2.28%	8.63%
Current Ratio	1.11	1.17	1.23	1.92	3.57	3.20
Debt/Capital	28.26%	24.95%	42.92%	14.61%	3.18%	0.00%
Net Margin	9.84%	6.14%	11.08%	34.73%	3.50%	7.69%
Return on Equity	11.44%	6.07%	17.10%	20.50%	5.75%	9.40%
Sales/Assets	0.54	0.67	0.55	0.47	1.27	0.56
Proj. Sales Growth (F1/F0)	-13.47%	0.00%	0.00%	0.00%	1.19%	0.00%
Momentum Score	F	-	-	A	D	C
Daily Price Chg	0.81%	0.23%	0.33%	-0.79%	2.52%	0.81%
1 Week Price Chg	0.06%	-0.74%	0.13%	-0.63%	-0.85%	2.16%
4 Week Price Chg	5.59%	1.17%	3.67%	11.22%	4.79%	11.29%
12 Week Price Chg	-1.44%	5.97%	10.64%	-1.16%	-20.76%	19.89%
52 Week Price Chg	-26.10%	-0.25%	27.46%	-0.36%	-17.91%	40.10%
20 Day Average Volume	396,509	55,272	1,693,267	1,019,819	263,213	159,192
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.14%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-19.45%	-6.50%	0.14%	1.86%	-9.44%	-0.08%
(Q1) EPS Est Mthly Chg	-0.31%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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