

Adtalem Global Edu (ATGE)

\$35.73 (As of 02/06/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 12/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: C

Summary

Adtalem reported better-than-expected results in second-quarter fiscal 2020. The top and bottom lines surpassed the Zacks Consensus Estimate by 1.6% and 5.6%, respectively. Revenues grew 4.8% and earnings remained flat year over year. Growth of the RN to BSN program was nullified by higher investments in marketing and student recruitment to boost enrollments and revenues. However, shares of Adtalem have sharply declined in the past year. Adjusted operating income from continuing operations declined 9.4% year over year. 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, limiting the stock's upside potential.

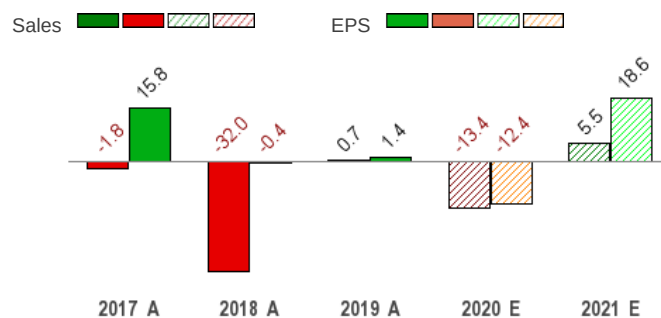
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.79 - \$27.58
20 Day Average Volume (sh)	418,356
Market Cap	\$2.0 B
YTD Price Change	2.2%
Beta	0.83
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Schools
Zacks Industry Rank	Bottom 31% (175 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.6%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	05/07/2020
Earnings ESP	-5.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,133 E
2020	255 A	266 A	274 E	283 E	1,074 E
2019	284 A	317 A	309 A	330 A	1,240 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.93 E
2020	\$0.34 A	\$0.57 A	\$0.71 E	\$0.91 E	\$2.47 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.

P/E TTM	14.0
P/E F1	14.5
PEG F1	1.2
P/S TTM	1.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

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.

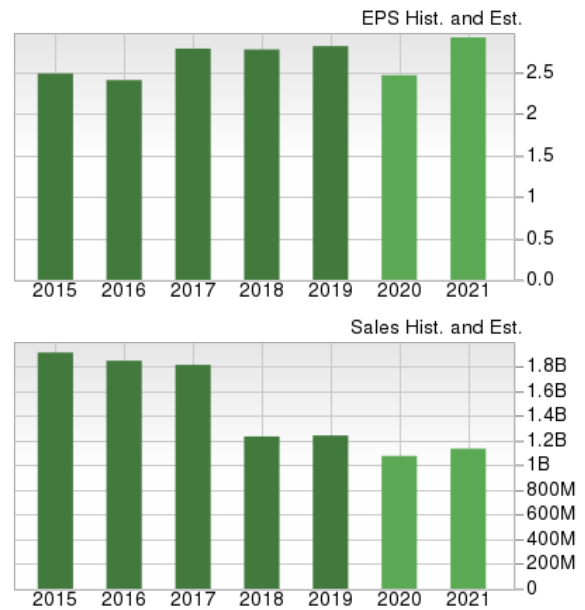
The company reports operating results under three segments. During the fourth quarter of fiscal 2019, it renamed two segments to better focus on growth strategies. The company renamed Professional Education to Financial Services, and Technology and Business to Business and Law.

Medical and Healthcare (contributing 82.7% to fiscal second-quarter 2020 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 (17.3%): 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 include 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 the fiscal first and second quarters of 2020, the company's new student enrollment recorded year-over-year growth of 2.3% and 2.6%, respectively. 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 was solid in the fiscal second quarter, improving 3.6% and 1.2%, 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. Again in first-half fiscal 2020, the same represented 1.6% of total revenues.

Also, increased marketing-related expenses are weighing on the company's profits. This is evident from the 15.8% decline in operating profits during first-half fiscal 2020. Markedly, Student Services and Administrative expenses — as a percentage of total revenues — grew 130 basis points from the year-ago period.

▼ **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 December 2019 remained unchanged at 3.5% from the November reading but fell 4 percentage points from the year-ago period. The recent data reflects improving employment situation.

▼ **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 Q2 Earnings & Revenues Surpass Estimates

Adtalem Global Education Inc. reported second-quarter fiscal 2020 results, with the top and the bottom lines beating the Zacks Consensus Estimate.

In the quarter under review, the company reported adjusted earnings of 57 cents per share, which topped the consensus mark of 54 cents by 5.6%. Earnings, however, remained flat year over year. Higher investments in marketing and student recruitment to boost enrollments and revenues have negatively impacted operating income as well as profits. However, growth of the RN to BSN program helped the company to offset the negatives.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	1.61%
EPS Surprise	3.64%
Quarterly EPS	0.57
Annual EPS (TTM)	2.56

Revenues & Operating Discussion

Revenues of \$266.2 million topped the consensus mark of \$262 million by 1.6%. The figure also increased 4.8% year over year. During the fiscal second quarter, enrollment of new and total students grew 2.6% and 0.3% year over year, respectively.

Adjusted operating income from continuing operations of \$42.3 million declined 9.4% year over year.

Segment Details

Medical and Healthcare: Revenues in the segment rose 3.6% from the year-ago figure to \$220.2 million. Chamberlain University's revenues increased 2.7% year over year.

In the fiscal second quarter, new and total student enrollment increased 3.6% and 1.2% year over year, respectively, in Chamberlain. The upside was mainly driven by improved marketing and recruiting programs, mainly RN to BSN strategic partnerships, and the successful first class at its new San Antonio campus.

Medical and Veterinary schools' revenues grew 4.8% year over year. Adjusted operating income during the quarter was \$41.6 million, down 12.5% from the prior-year level. The decline was caused by elevated marketing-related expenses, increase in bad debt reserve and higher corporate allocation costs.

Financial Services: Revenues in the segment totaled \$46 million, up 9.1% year over year. Revenues at Becker decreased 3.4% year over year and that of Association of Anti-Money Laundering Specialists dropped 9.9% from the year-ago quarter. Adjusted operating income declined 41% from the prior-year quarter to \$5.7 million.

Liquidity & Cash Flow

As of Dec 31, 2019, Adtalem had cash and cash equivalents of \$67.3 million compared with \$208.3 million in the corresponding period of 2018. In the first six months of fiscal 2020, cash used in operating activities totaled \$13.7 million compared with \$23 million of cash provided by operating activities in the comparable year-ago period.

Fiscal 2020 View

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

Valuation

Adtalem's shares are up 2.2% in the year-to-date period, but down 25.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 7.6% and 0.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 36.1% and 16.4%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and 25.2% in the past year.

The stock is currently trading at 13.2X forward 12-month price to earnings, which compares to 31.69X for the Zacks sub-industry, 20.15X for the Zacks sector and 19.17X 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 12.6X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 14.02X 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	13.2	31.69	20.15	19.17
	5-Year High	19.46	38.01	23.35	19.34
	5-Year Low	6.5	15.52	16.16	15.18
	5-Year Median	12.6	28.03	20.09	17.46
P/B TTM	Current	1.48	7.2	3.54	4.56
	5-Year High	2.37	11.19	8.31	4.56
	5-Year Low	0.64	5.15	3.13	2.85
	5-Year Median	1.41	8.43	4.31	3.62
P/S F12M	Current	1.78	4.91	2.32	3.55
	5-Year High	2.66	6.82	3.19	3.55
	5-Year Low	0.55	3.02	1.81	2.54
	5-Year Median	1.25	4.31	2.54	3

As of 02/6/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 255)



Top Peers

GP Strategies Corporation (GPX)	Outperform
Bright Scholar Education Holdings Ltd. (BEDU)	Neutral
Bright Horizons Family Solutions Inc. (BFAM)	Neutral
Grand Canyon Education, Inc. (LOPE)	Neutral
OneSmart International Education Group Limited (ONE)	Neutral
Career Education Corporation (PRDO)	Neutral
Strategic Education Inc. (STRA)	Neutral
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	-	-	F	A	C
Market Cap	1.97 B	680.83 M	24.40 B	3.92 B	682.50 M	3.56 B
# of Analysts	2	1	13	2	3	2
Dividend Yield	0.00%	0.00%	1.75%	0.00%	0.00%	1.48%
Value Score	B	-	-	D	A	D
Cash/Price	0.07	0.25	0.04	0.04	0.32	0.12
EV/EBITDA	9.83	10.78	14.17	12.40	4.07	91.44
PEG Ratio	1.16	1.16	2.05	0.95	2.22	1.46
Price/Book (P/B)	1.52	2.41	3.31	2.84	1.05	2.47
Price/Cash Flow (P/CF)	9.17	19.81	13.63	13.87	6.17	27.42
P/E (F1)	14.47	20.96	19.08	14.23	33.32	21.95
Price/Sales (P/S)	1.70	1.33	2.67	5.28	0.67	3.65
Earnings Yield	6.91%	4.78%	5.24%	7.03%	3.00%	4.55%
Debt/Equity	0.46	0.36	0.71	0.17	0.03	0.00
Cash Flow (\$/share)	3.90	0.54	6.89	5.86	2.70	5.92
Growth Score	D	-	-	F	A	A
Hist. EPS Growth (3-5 yrs)	2.24%	8.92%	10.80%	20.32%	10.99%	6.85%
Proj. EPS Growth (F1/F0)	-12.41%	12.96%	7.23%	4.10%	-45.05%	11.54%
Curr. Cash Flow Growth	-3.44%	-2.51%	9.51%	15.13%	5.57%	147.33%
Hist. Cash Flow Growth (3-5 yrs)	-3.22%	7.46%	8.55%	19.94%	-2.28%	8.63%
Current Ratio	1.28	1.25	1.20	1.92	3.84	3.20
Debt/Capital	31.49%	27.61%	42.90%	14.61%	2.55%	0.00%
Net Margin	9.25%	4.64%	11.76%	34.73%	3.19%	7.69%
Return on Equity	10.72%	4.64%	16.98%	20.50%	5.15%	9.40%
Sales/Assets	0.50	0.65	0.54	0.47	1.25	0.56
Proj. Sales Growth (F1/F0)	-13.34%	4.55%	4.15%	10.15%	2.01%	4.69%
Momentum Score	C	-	-	F	F	C
Daily Price Chg	-1.19%	0.00%	-0.11%	-1.53%	-1.94%	1.24%
1 Week Price Chg	-1.51%	-2.41%	-2.60%	-14.90%	-18.07%	0.57%
4 Week Price Chg	-0.58%	0.00%	1.51%	-14.75%	-18.25%	1.74%
12 Week Price Chg	7.88%	8.77%	5.63%	-6.81%	-16.91%	19.01%
52 Week Price Chg	-27.08%	0.00%	17.01%	-12.08%	-46.45%	46.78%
20 Day Average Volume	418,356	55,188	1,961,054	902,497	406,005	102,416
(F1) EPS Est 1 week change	0.27%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.27%	0.00%	-0.00%	-2.23%	-42.09%	0.00%
(F1) EPS Est 12 week change	0.14%	-1.56%	-0.16%	-2.23%	-42.09%	-0.34%
(Q1) EPS Est Mthly Chg	-7.42%	0.00%	0.00%	-4.94%	-51.28%	0.00%

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	C
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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