

Adtalem Global Edu (ATGE)

\$33.90 (As of 08/19/20)

Price Target (6-12 Months): **\$29.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 08/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

Summary

Adtalem's shares have underperformed the industry in the past three months. The trend is likely to continue, given lackluster results for fourth-quarter fiscal 2020. Earnings and revenues lagged the Zacks Consensus Estimate by 4.9% and 0.3% as well as declined 12.1% and 1.7% year over year, respectively. Its Medical and Veterinary schools witnessed COVID-19-led reduced clinical weeks and the loss of housing revenues. Also, cancellation of ACAMS in person conferences and lower contribution from Becker due to the delay of CPA testing as well as constrained customer spending added to the woes. Although enrollment of new and total students grew 5.9% and 6.9% year over year, uncertain market conditions are concerning.

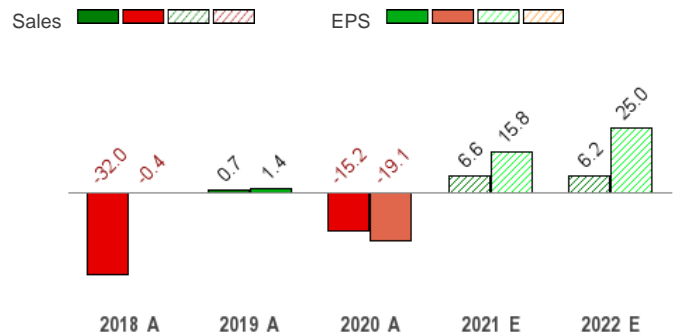
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.79 - \$19.76
20 Day Average Volume (sh)	470,041
Market Cap	\$1.8 B
YTD Price Change	-3.1%
Beta	1.06
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Schools
Zacks Industry Rank	Bottom 19% (204 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.9%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	-6.4%
Expected Report Date	11/03/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					1,190 E
2021	256 E	277 E	285 E	300 E	1,121 E
2020	255 A	266 A	271 A	260 A	1,052 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$3.30 E
2021	\$0.36 E	\$0.66 E	\$0.86 E	\$0.77 E	\$2.64 E
2020	\$0.34 A	\$0.57 A	\$0.81 A	\$0.58 A	\$2.28 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 08/19/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/20/2020.

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.

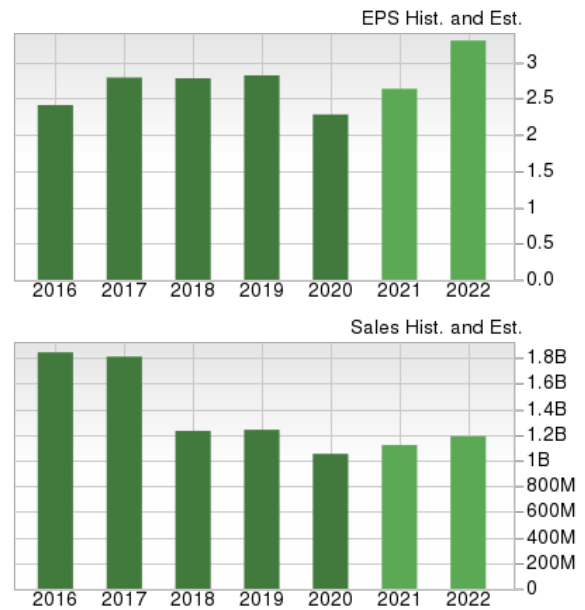
The company reports operating results under two segments:

Medical and Healthcare (contributing 81.4% to fiscal 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 (18.6%): 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. On Apr 27, it announced the completion of Adtalem Educacional do Brasil sale to YDUQS.

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



Reasons To Sell:

▼ **Coronavirus-Led Impacts Weighed on Performance:** The company's top and bottom lines were significantly impacted by the coronavirus pandemic in the fiscal fourth quarter. Total revenues for the quarter declined 1.7% due to reduced clinical weeks for medical schools, the impact of cancelling in-person conferences with ACAMS and constrained B2B customer spending across financial services. These factors reduced revenues by approximately \$28 million, as estimated by the company.

COVID-19 impacts, higher marketing and advertising costs, as well as stringent regulations are likely to put pressure on its results.

Its Medical and Healthcare revenues remained flat year over year in the quarter despite surging demand for these professions during the pandemic. Revenue growth at Chamberlain was totally offset by declines at Medical and Veterinary schools, mainly due to lower clinical and housing revenues as a result of the COVID-19 outbreak.

Financial services revenues also decreased 9.7% owing to COVID-19 impacts at ACAMS and Becker. ACAMS fell due to the cancellation of in-person conferences, whereas the temporary closure of CPA test taking centers and constrained spending on B2B customers ailed Becker. As the near-term financial impact of the COVID-19 pandemic is uncertain, Adtalem has not issued its guidance for fiscal 2020.

▼ **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 2020, the company reported restructuring-related expenses of \$28.6 million, which was 2.7% of total revenues.

Also, increased marketing-related expenses are weighing on the company's profits. This is evident from the 23.2% decline in adjusted operating profits during fiscal 2020. Markedly, Student Services and Administrative expenses — as a percentage of total revenues — grew 580 basis points from the year-ago period. To navigate through the current environment, the company has increased investments in marketing and advertising, which will further put pressure on margins in the upcoming periods.

▼ **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.

Risks

- **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. It keeps on collaborating with different institutions to boost student enrollment.

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.

Adtalem has started developing its hybrid BSN degree via utilizing online instruction and in-person intensive learning. This step will be crucial for addressing nursing shortage in the current market scenario. 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.

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.

- **Enough Liquidity to Overcome Coronavirus Woes:** Adtalem's long-term debt (including operating lease liabilities) at fiscal 2020-end decreased sequentially to \$462.1 million from \$625.8 million. Also, it has ample liquidity to manage the ongoing crisis. The company ended fiscal 2020 with cash and cash equivalents of \$500.5 million, way higher than \$175.5 million at fiscal third quarter-end. In addition, as of Jun 30, it had \$231.6 million of undrawn credit facility capacity.

Moreover, it has sufficient cash to meet its short-term obligation of \$54.6 million. Importantly, the company maintained a healthy liquidity profile and produced \$105.4 million of free cash flow in fiscal 2020.

Last Earnings Report

Adtalem Q4 Earnings & Revenue Miss, Down Y/Y

Adtalem Global Education Inc. reported lackluster results for fourth-quarter fiscal 2020, wherein earnings and revenues lagged the Zacks Consensus Estimate as well as declined year over year.

Despite being confident about long-term revenue and earnings growth, it did not provide its guidance for fiscal 2021 owing to uncertain economic conditions.

For the quarter under review, adjusted earnings came in at 58 cents per share, which missed the consensus mark of 61 cents by 4.9%. The metric also declined 12.1% year over year.

Quarter Ending **06/2020**

Report Date	Aug 18, 2020
Sales Surprise	-0.26%
EPS Surprise	-4.92%
Quarterly EPS	0.58
Annual EPS (TTM)	2.30

Revenues & Operating Discussion

Revenues of \$259.7 million lagged the consensus mark of \$260.4 million by 0.3% and decreased 1.7% year over year due to COVID-19 impacts. During the fiscal fourth quarter, enrollment of new and total students grew 5.9% and 6.9% year over year, respectively.

Adjusted operating income from continuing operations of \$40 million decreased 23.2% year over year.

Segment Details

Medical and Healthcare: Revenues in the segment slipped 0.1% from the year-ago figure to \$211.4 million. In Chamberlain, revenues grew 9.1% year over year. New and total student enrollment for the May session increased 5.4% and 8.2% year over year, respectively.

Medical and Veterinary schools' revenues decreased 12.9% year over year, mostly due to COVID-19-led reduced clinical weeks at the medical schools and the loss of housing revenues. Enrollment of new students grew 9.7%, while total students fell 0.7% year over year. Adjusted operating income in the segment was \$40 million, down 0.3% from the prior-year level.

Financial Services: Revenues in the segment totaled \$48.3 million, down 9.7% year over year, given cancellation of ACAMS in person conferences and lower contribution from Becker Accounting. Revenues at Becker decreased 14.4% year over year due to the delay of CPA testing owing to the COVID-19 pandemic and constrained customer spending. OnCourse Learning contributed 10.1% to total revenues. However, revenues were impacted by the sale of Becker's healthcare assets. Adjusted operating income declined 46.9% from the prior-year quarter to \$8.5 million

Liquidity & Cash Flow

As of Jun 30, 2020, Adtalem had cash and cash equivalents of \$500.5 million compared with \$204.2 million at fiscal 2019-end. In fiscal 2020, cash provided by operating activities totaled \$107.7 million compared with \$204.9 million in the year-ago period.

Fiscal 2020 Highlights

Adjusted earnings of \$2.28 fell just 0.4% from the fiscal 2019 level. Revenues for fiscal 2020 rose 3.8% from the prior year to \$1.05 billion. However, adjusted operating income fell 9.1% year over year to \$166.1 million.

Valuation

Adtalem's shares are down 3% in the year-to-date period and 34% over the trailing 12-month period. Stocks in the Zacks sub-industry is up 16% but the Zacks Consumer Discretionary sector is down 4.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector is up 23.7% and 5.5%, respectively.

The S&P 500 index is up 4.7% in the year-to-date period and 15.7% in the past year.

The stock is currently trading at 12.04X forward 12-month earnings, which compares to 35.71X for the Zacks sub-industry, 33.9X for the Zacks sector and 22.78X 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 12.48X. Our Underperform recommendation indicates that the stock will perform worst than the market. Our \$29 price target reflects 10.28X 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	12.04	35.71	33.9	22.78
	5-Year High	19.46	38.01	33.9	22.78
	5-Year Low	6.5	15.52	16.13	15.25
	5-Year Median	12.48	28.67	19.86	17.58
P/B TTM	Current	1.36	7.7	3.12	4.53
	5-Year High	2.37	11.19	4.83	4.56
	5-Year Low	0.64	5.14	2.22	2.83
	5-Year Median	1.4	8	4.21	3.75
P/S F12M	Current	1.57	3.82	2.4	3.7
	5-Year High	2.66	6.41	2.95	3.7
	5-Year Low	0.55	3	1.68	2.53
	5-Year Median	1.48	3.94	2.5	3.05

As of 08/19/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (204 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
American Public Education, Inc. (APEI)	Outperform	1
K12 Inc (LRN)	Outperform	1
Bright Horizons Family Solutions Inc. (BFAM)	Neutral	3
Laureate Education Inc. (LAUR)	Neutral	3
Grand Canyon Education, Inc. (LOPE)	Neutral	3
OneSmart International Education Group Limited (ONE)	Neutral	4
Career Education Corporation (PRDO)	Neutral	2
Strategic Education Inc. (STRA)	Underperform	5

Industry Comparison Industry: Schools				Industry Peers		
	ATGE	X Industry	S&P 500	LOPE	LRN	STRA
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Outperform	Underperform
Zacks Rank (Short Term)	5	-	-	3	1	5
VGM Score	A	-	-	A	C	A
Market Cap	1.76 B	511.83 M	23.61 B	4.34 B	1.77 B	2.41 B
# of Analysts	2	1	14	2	2	1
Dividend Yield	0.00%	0.00%	1.65%	0.00%	0.00%	2.22%
Value Score	A	-	-	B	C	B
Cash/Price	0.10	0.19	0.07	0.04	0.11	0.19
EV/EBITDA	8.27	8.27	13.36	12.05	15.74	8.35
PEG Ratio	1.03	1.60	2.99	1.12	2.07	1.08
Price/Book (P/B)	1.34	2.41	3.16	2.92	2.60	1.62
Price/Cash Flow (P/CF)	7.82	14.03	12.71	14.97	18.20	9.41
P/E (F1)	12.89	35.18	21.82	16.78	41.45	16.17
Price/Sales (P/S)	1.67	1.62	2.47	5.34	1.70	2.35
Earnings Yield	7.76%	2.38%	4.37%	5.95%	2.40%	6.18%
Debt/Equity	0.35	0.10	0.76	0.09	0.15	0.00
Cash Flow (\$/share)	4.33	0.45	6.94	6.14	2.36	11.51
Growth Score	B	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	2.98%	7.92%	10.44%	18.98%	15.64%	18.94%
Proj. EPS Growth (F1/F0)	15.57%	8.91%	-5.97%	-1.88%	72.50%	0.45%
Curr. Cash Flow Growth	1.81%	1.81%	5.22%	4.94%	-11.06%	94.13%
Hist. Cash Flow Growth (3-5 yrs)	-3.22%	9.47%	8.52%	16.00%	-2.51%	31.70%
Current Ratio	2.00	1.43	1.33	1.48	1.83	3.72
Debt/Capital	26.19%	11.47%	44.50%	8.12%	13.03%	0.00%
Net Margin	-8.11%	2.35%	10.13%	31.11%	2.35%	11.16%
Return on Equity	9.45%	4.25%	14.67%	18.04%	3.75%	11.43%
Sales/Assets	0.44	0.53	0.51	0.47	1.11	0.57
Proj. Sales Growth (F1/F0)	6.57%	0.00%	-1.54%	8.22%	25.18%	0.65%
Momentum Score	A	-	-	B	F	A
Daily Price Chg	-5.75%	-0.84%	-0.38%	-1.65%	-3.14%	-4.60%
1 Week Price Chg	-0.72%	0.00%	1.09%	-4.77%	-7.71%	1.12%
4 Week Price Chg	-6.74%	-3.33%	2.23%	-3.01%	-13.14%	-35.40%
12 Week Price Chg	0.59%	7.99%	6.91%	-5.49%	77.13%	-38.52%
52 Week Price Chg	-34.02%	-14.58%	2.28%	-29.06%	44.44%	-38.79%
20 Day Average Volume	470,041	93,515	1,899,976	305,251	1,554,942	301,284
(F1) EPS Est 1 week change	-6.39%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.39%	0.33%	1.70%	2.53%	28.57%	-9.46%
(F1) EPS Est 12 week change	-6.39%	0.00%	3.08%	2.53%	31.57%	-9.46%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.83%	-10.44%	-17.31%	-9.49%

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	A
Growth Score	B
Momentum Score	A
VGM Score	A

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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