

**Grand Canyon Education, Inc.**  
NASDAQ:LOPE

**Analyst:** Peter Gadze  
**Sector:** Consumer Staples

**Buy**

Price Target: \$46.07

**Key Statistics** as of 10/11/2016

Market Price: \$40.70  
Industry: Education Services  
Market Cap: 1.92B  
52-Week Range: \$31.12 - 45.02  
Beta: 1.32

**Catalysts:**

- LOPE will report Q3 Earnings on 11/02/16
- Advanced Technology
- More Revenue from Investors

**Company Description:**

Grand Canyon Education, Inc. is a regionally accredited provider of postsecondary education services focused on offering graduate and undergraduate degree programs. Their education is mostly focused on the core of education, healthcare, business, and liberal arts. This company offers programs online, on ground at campus in Phoenix, Arizona, and onsite at facilities it leases and at facilities owned by third party employers. Grand Canyon Education was founded in 1949.



## Thesis

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Grand Canyon University (GCU) is a very competitive leader when it comes to online education. It's dominance in online educational programs in Phoenix, Arizona should cause this stock to grow. Online education is the core of LOPE and as technology advance, LOPE advances. This company has expanded tremendously since 2012 and has spent millions of dollars into new programs around campus and online.

## People

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Brent D. Richardson has been serving as the Executive Chairman of LOPE since July 1, 2008. Mr. Richardson was previously a Chief Executive Officer and Director from 2004 to July 2008. Mr. Richardson served as Chief Executive Officer of Masters Online, LLC, a company that provided educational online programs and marketing services in many regions over the nation.

Brian E. Mueller has been serving as our Chief Executive Officer since July 1, 2008, as a director since March 2009 and as the president of GCU since Sept. 1, 2012. Mr. Mueller has been serving as the President of the Grand Canyon University Foundation, a foundation formed to benefit public charities.

Dr. Stan Meyer, the Chief Operating Officer, joined GCU in 2008 with more than 25 years of experience in higher education.

Dan Bachus, Chief Financial Officer, joined GCU in 2008 and brings more than eight years of executive-level finance and leadership experience to his position.

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## Porters Five Forces

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Threat of New Entrants would be medium in this department. There are many schools that are already settled in online educational programs in that region. LOPE is already a big Industry in Phoenix, Arizona and only few entrants have competed among them. The other big programs are Arizona State University, Northern Arizona University and University of Arizona. It's more expensive to get an education online than it is for a student that's on GCU. Most students at GCU take classes online while the other top Universities have more people taking class on campus.

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Bargaining Power of Suppliers is at a medium/low. GCU is the same as all of the other Universities because they are providing the same services. All of these universities, including GCU can't change their prices for students. If GCU were to increase and make education more expensive for students, suppliers would want to benefit as well and increase their price of supplies.

The Threat of Substitutes are low for this department. There aren't any substitutes when it comes to getting an education. Even though most students get their diploma through online education on GCU, there are students that commute and take classes on campus. That isn't a substitute that threatens GCU because they are already giving students an option to take classes on campus instead of online.

Bargaining Power of Buyers is at a medium status. Universities and Colleges supply students with scholarships that they derived/earned from their prior years. Students take advantage of the scholarships they can get so they pay less money. By doing this, students lower their price for education and GCU would make less profit.

Rivalry in the education department is always about whether people can afford it. The lower the cost, the more likely a student would attend that University. But as our country is developing and becoming more advance, technology can in cause more competition. Since GCU's has a strong online educational program, they are already up to date with the technology.

## Product Differentiation

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GCU has grew tremendously the past few years. They continue to make profit each year, increase the number of students in each year, developed more advanced departments for students, and accepted to become an NCAA Division 1 University the past few years. They use a hybrid model that combines traditional and online campuses producing a high quality education. In 2012 they had approximately 6,500 students on campus and their goal was to bring that number up to 17,500. LOPE enrolls 60,000 students annually and 83% are in online programs. Since the population of the students has grew, most of the spending is going to classroom facilities, residence halls, and the cafeteria for the students that've decided to stay on campus. The increasing number of full time students has also increased the year to year retention rates. Students that work full time in the fall continue to do so until the

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next fall semester. The cost for a student to attend GCU is approximately \$7,800 a year. In comparison with other top competitors in the area, the cost is between \$25,000-40,000. Arizona (competitor) has a tuition rate of \$10,000 a year which is also above GCU by some amount. Along with this organizational model, technology has provided a structure to help manage students' progress daily. Up to \$85 million have been spent on technology to stay up to date with advancement and to view students' progress.

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### Important Dates and Catalysts

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According to the LOPE's Earnings Call, on November 2nd, people will be given further information regarding the 3rd quarters Earnings. In the previous quarter earnings, there has been an increase in revenue. Enrollments grew from 7.1% to 9.5%. LOPE's online persistence has grown 10 basis points since its previous rate of 91.8%. In 2008 the persistence rate was in the mid 70% and it grew a tremendous amount till this year. Although the operating margin decreased from the previous quarter by 0.8%, net income has increased from \$25.8 million to \$27.6 million in the prior year period.

The Advancement of Technology would be a strong driver for LOPE. Since 83% use online education to get their degree, it is important to be up to date with the new technology. As stated in above, \$85 million have been spent on technology. Students will be able to adapt well in society once given the best technological advancement.

The more people that invest in LOPE, the more revenue will be put into action for this company. Every company need money to deal with financial issues but with more money, there is more comfortability. The Board of Trustees won't just take the money to hold on to it. LOPE will grow as a campus and online so that more students get enrolled causing the stock price to go up.

### Summary

While many education industries continue to struggle, the value of GCU becomes stronger. Although there hasn't been any new technology on the up rise, LOPE will gradually grow. There should be no selling of the stock, at least hold on to it. GCU hasn't fully grown to its potential and their online programs are the core to this investment. In the previous statistic above, the number of students attending GCU have nearly doubled. The more students that sign up to get an education at GCU, the more revenue gets put into the industry to grow even larger. LOPE's value is calculated at \$39.96 per share and the 1 year target rate price is \$46.07 per share. This shows a roughly 15% growth in LOPE. Buy.

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**Grand Canyon Education, Inc. (lope)**

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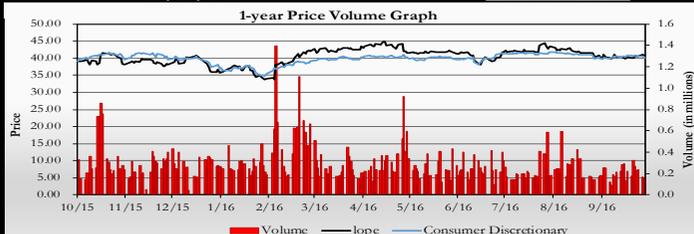
**NEUTRAL**

Analysis by Peter Gadze  
10/14/2016

Current Price: \$40.55  
Divident Yield: 0.0%

Intrinsic Value: \$39.96  
Target Price: \$46.07

Target 1 year Return: 13.62%  
Probability of Price Increase: 96.2%



Description	
Grand Canyon Education, Inc., together with its subsidiaries, provides postsecondary education services in the United States and Canada.	
General Information	
Sector	Consumer Discretionary
Industry	Diversified Consumer Services
Last Guidance	November 3, 2015
Next earnings date	November 2, 2016
Estimated Country Risk Premium	6.25%
Effective Tax rate	40%
Effective Operating Tax rate	41%

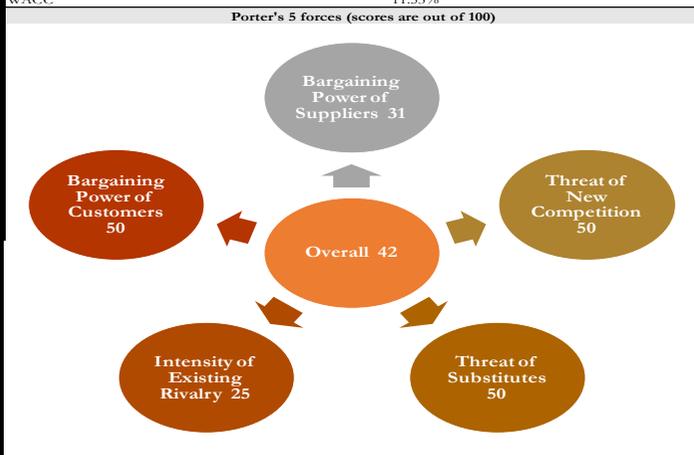
Market Data	
Market Capitalization	\$1,911.24
Daily volume (mil)	0.14
Shares outstanding (mil)	47.13
Diluted shares outstanding (mil)	47.13
% shares held by institutions	101%
% shares held by investments Managers	87%
% shares held by hedge funds	10%
% shares held by insiders	1.76%
Short interest	5.26%
Days to cover short interest	11.13
52 week high	\$45.02
52-week low	\$31.12
Levered Beta	1.32
Volatility	31.33%

Past Earning Surprises		
Quarter ending	Revenue	EBITDA
6/30/2015	0.71%	-4.56%
9/30/2015	0.71%	-2.76%
12/31/2015	1.62%	0.48%
3/31/2016	1.14%	-2.72%
6/30/2016	0.89%	-1.55%
Mean	1.01%	-2.22%
Standard error	0.2%	0.8%

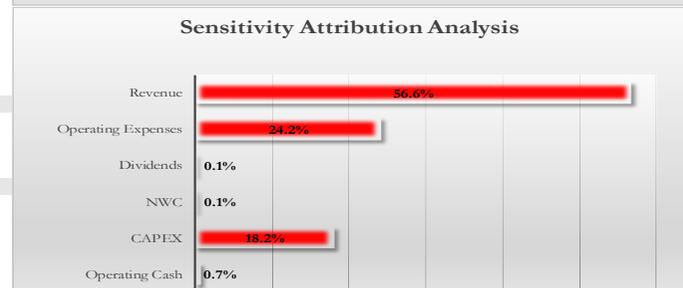
Peers	
Strayer Education Inc.	
Career Education Corp.	
Capella Education Co.	
Bridgepoint Education, Inc.	
DeVry Education Group Inc.	
American Public Education, Inc.	
K12, Inc.	
Apollo Education Group, Inc.	

Management	Position	Total compensations growth	Total return to shareholders
Mueller, Brian	Chief Executive Officer, Pre	6.88% per annum over 5y	-1.2% per annum over 5y
Bachus, Daniel	Chief Financial Officer	9.86% per annum over 5y	-1.2% per annum over 5y
Meyer, W.	Chief Operating Officer	9.72% per annum over 5y	-1.2% per annum over 5y
Mildenhall, Joseph	Chief Information Officer	14.2% per annum over 5y	-1.2% per annum over 5y
Roberts, Brian	Senior Vice President, Gener	33.59% per annum over 3y	21.24% per annum over 3y
		N/M	N/M

Profitability	lope (LTM)	lope (5 years historical average)	Industry (LTM)
ROIC	16.5%	29.52%	28.89%
NOPAT Margin	19%	22.47%	13.8%
Revenue/Invested Capital	0.89	1.31	2.10
ROE	17.5%	35.44%	36.18%
Adjusted net margin	18%	22.18%	12.4%
Revenue/Adjusted Book Value	0.95	1.60	2.93
Invested Funds	lope (LTM)	lope (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	8.4%	15.2%	24%
Estimated Operating Cash/Total Capital	4.0%	5.6%	N/A
Non-cash working Capital/Total Capital	-8.5%	-7.8%	-24%
Invested Capital/Total Capital	95.9%	90.5%	100%
Capital Structure	lope (LTM)	lope (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.09	0.09	0.30
Cost of Existing Debt	2.55%	3.34%	7.00%
Estimated Cost of new Borrowing	2.89%	3.66%	7.00%
CGFS Risk Rating	A	BB	CC
Unlevered Beta (LTM)	1.26	1.09	0.60
WACC	11.53%	10.18%	7.18%



Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	12.8%	18.6%	1.43
6/30/2017	9.7%	18.7%	1.41
6/30/2018	8.7%	18.8%	1.39
6/30/2019	7.6%	18.6%	1.42
6/30/2020	6.3%	18.4%	1.43
6/30/2021	4.1%	17.8%	1.40
6/30/2022	4.1%	17.6%	1.42
6/30/2023	4.1%	17.4%	1.45
6/30/2024	4.1%	17.3%	1.49
6/30/2025	4.1%	17.2%	1.53
6/30/2026	4.5%	17.2%	1.59
Continuing Period	4.1%	17.1%	1.50
Period	Invested Capital	Net Claims	Price per share
Base Year	\$320.72	\$173.68	\$38.81
6/30/2017	\$469.22	\$94.23	\$44.46
6/30/2018	\$575.44	-\$56.06	\$50.56
6/30/2019	\$738.26	-\$220.68	\$56.87
6/30/2020	\$932.71	-\$450.61	\$64.42
6/30/2021	\$1,078.36	-\$646.91	\$70.88
6/30/2022	\$1,210.61	-\$848.00	\$77.36
6/30/2023	\$1,292.57	-\$1,055.14	\$83.86
6/30/2024	\$1,371.42	-\$1,265.13	\$90.38
6/30/2025	\$1,445.57	-\$1,480.25	\$96.90
6/30/2026	\$1,495.04	-\$1,697.74	\$103.40
Continuing Period			



Valuation	NOPAT margin	ROIC/WACC
Base Year	18.6%	1.43
6/30/2017	18.7%	1.41
6/30/2018	18.8%	1.39
6/30/2019	18.6%	1.42
6/30/2020	18.4%	1.43
6/30/2021	17.8%	1.40
6/30/2022	17.6%	1.42
6/30/2023	17.4%	1.45
6/30/2024	17.3%	1.49
6/30/2025	17.2%	1.53
6/30/2026	17.2%	1.59
Continuing Period	17.1%	1.50
Valuation	Net Claims	Price per share
Base Year	\$173.68	\$38.81
6/30/2017	\$94.23	\$44.46
6/30/2018	-\$56.06	\$50.56
6/30/2019	-\$220.68	\$56.87
6/30/2020	-\$450.61	\$64.42
6/30/2021	-\$646.91	\$70.88
6/30/2022	-\$848.00	\$77.36
6/30/2023	-\$1,055.14	\$83.86
6/30/2024	-\$1,265.13	\$90.38
6/30/2025	-\$1,480.25	\$96.90
6/30/2026	-\$1,697.74	\$103.40
Continuing Period		