

Strategic Education, Inc.
Form 10-Q
November 08, 2018
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For the quarterly period ended September 30, 2018

Commission File No. 0-21039

Strategic Education, Inc.

(Exact name of registrant as specified in this charter)

| | |
|---------------------------------|---------------------|
| Maryland | 52-1975978 |
| (State or other jurisdiction of | (I.R.S. Employer |
| incorporation or organization) | Identification No.) |

2303 Dulles Station Boulevard

| | |
|--|------------|
| Herndon, VA | 20171 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (703) 561-1600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes
No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|-------------------------|---------------------------|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| Emerging growth company | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 2, 2018, there were outstanding 21,709,285 shares of Common Stock, par value \$0.01 per share, of the Registrant.

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STRATEGIC EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

| | December 31, 2017 | September 30, 2018 |
|---|----------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 155,933 | \$ 276,382 |
| Marketable securities, current | — | 38,139 |
| Tuition receivable, net | 23,122 | 52,527 |
| Income taxes receivable | — | 6,995 |
| Other current assets | 11,293 | 17,367 |
| Total current assets | 190,348 | 391,410 |
| Property and equipment, net | 73,763 | 124,613 |
| Marketable securities, non-current | — | 33,324 |
| Deferred income tax assets | 24,452 | — |
| Intangible assets, net | 7,260 | 342,477 |
| Goodwill | 20,744 | 730,729 |
| Other assets | 4,711 | 23,143 |
| Total assets | \$ 321,278 | \$ 1,645,696 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 46,177 | \$ 78,092 |
| Income taxes payable | 1,038 | — |
| Contract liabilities | 21,851 | 38,025 |
| Total current liabilities | 69,066 | 116,117 |
| Deferred income tax liabilities | — | 71,126 |
| Other long-term liabilities | 43,015 | 50,123 |
| Total liabilities | 112,081 | 237,366 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, par value \$0.01; 32,000,000 shares authorized; 11,167,425 and 21,707,599 shares issued and outstanding at December 31, 2017 and September 30, 2018, respectively | 112 | 217 |
| Additional paid-in capital | 47,079 | 1,301,228 |
| Accumulated other comprehensive income (loss) | — | (22) |
| Retained earnings | 162,006 | 106,907 |
| Total stockholders' equity | 209,197 | 1,408,330 |
| Total liabilities and stockholders' equity | \$ 321,278 | \$ 1,645,696 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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STRATEGIC EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|-------------|--|-------------|
| | 2017 | 2018 | 2017 | 2018 |
| Revenues | \$ 108,512 | \$ 160,945 | \$ 336,144 | \$ 392,082 |
| Costs and expenses: | | | | |
| Instruction and educational support | 59,755 | 93,290 | 184,821 | 221,756 |
| Marketing | 26,756 | 46,165 | 64,700 | 87,402 |
| Admissions advisory | 4,828 | 9,789 | 14,323 | 19,074 |
| General and administration | 11,053 | 15,811 | 35,877 | 38,092 |
| Amortization of intangible assets | — | 10,278 | — | 10,278 |
| Merger costs | 3,414 | 29,620 | 3,414 | 37,791 |
| Fair value adjustments and impairment of intangible assets | (5,518) | 13,119 | (7,512) | 19,304 |
| Total costs and expenses | 100,288 | 218,072 | 295,623 | 433,697 |
| Income (loss) from operations | 8,224 | (57,127) | 40,521 | (41,615) |
| Other income | 141 | 1,110 | 256 | 1,846 |
| Income (loss) before income taxes | 8,365 | (56,017) | 40,777 | (39,769) |
| Provision (benefit) for income taxes | 2,138 | (3,236) | 13,670 | (1,643) |
| Net income (loss) | \$ 6,227 | \$ (52,781) | \$ 27,107 | \$ (38,126) |
| Earnings (loss) per share: | | | | |
| Basic | \$ 0.58 | \$ (2.97) | \$ 2.54 | \$ (2.90) |
| Diluted | \$ 0.56 | \$ (2.97) | \$ 2.43 | \$ (2.90) |
| Weighted average shares outstanding: | | | | |
| Basic | 10,701 | 17,799 | 10,671 | 13,141 |
| Diluted | 11,210 | 17,799 | 11,174 | 13,141 |
| Cash dividend declared per share | \$ 0.25 | \$ 0.50 | \$ 0.75 | \$ 1.00 |

STRATEGIC EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

| | For the three months ended | | For the nine months ended | |
|--|-------------------------------|-------------|---------------------------|-------------|
| | September 30, 2017 | 2018 | September 30, 2017 | 2018 |
| Net income (loss) | \$ 6,227 | \$ (52,781) | \$ 27,107 | \$ (38,126) |
| Other comprehensive income (loss): | | | | |
| Unrealized loss on marketable securities, net of tax | — | (22) | — | (22) |
| Comprehensive income (loss) | \$ 6,227 | \$ (52,803) | \$ 27,107 | \$ (38,148) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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STRATEGIC EDUCATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

| | Common Stock Shares | Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|--|------------------------|-----------|----------------------------------|----------------------|--|------------|
| Balance at December 31, 2016 | 11,093,489 | \$ 111 | \$ 35,453 | \$ 152,810 | \$ — | \$ 188,374 |
| Restricted stock grants, net of forfeitures | 73,936 | 1 | (1) | — | — | — |
| Stock-based compensation | — | — | 8,569 | — | — | 8,569 |
| Common stock dividends | — | — | — | (8,561) | — | (8,561) |
| Net income | — | — | — | 27,107 | — | 27,107 |
| Balance at September 30, 2017 | 11,167,425 | \$ 112 | \$ 44,021 | \$ 171,356 | \$ — | \$ 215,489 |
| | | | | | Accumulated Other Comprehensive Income (Loss) | Total |
| Balance at December 31, 2017 | 11,167,425 | \$ 112 | \$ 47,079 | \$ 162,006 | \$ — | \$ 209,197 |
| Impact of adoption of new accounting standard | — | — | — | (171) | — | (171) |
| Issuance of stock in connection with the acquisition of Capella Education Company | 10,263,775 | 103 | 1,236,858 | — | — | 1,236,961 |
| Filing fee related to new stock issuance | — | — | (147) | — | — | (147) |
| Stock-based compensation | — | — | — | — | — | — |