

PERDOCEO EDUCATION

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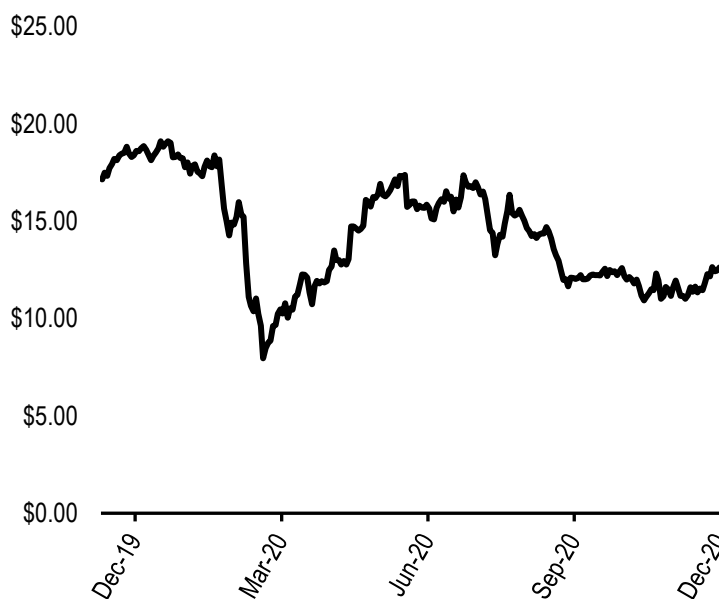
PERDOCEO EDUCATION STRONG BUY: PIONEERING SHIFT TOWARDS ONLINE EDUCATION

Company Overview:

Company Name:	Perdoceo Education
Exchange:	NYSE
Ticker:	PRDO
Country:	United States
Industry:	Education Services

Company Data:

Price Rating:	Strong Buy
Price Target:	\$24.63
Current Price:	\$12.63
Price Date:	11/12/20
52 Week Average:	\$14.38
Market Cap:	\$897 (mn)
Enterprise Value:	\$667 (mn)



Company Overview

- Founded in 1994 and IPO'd on NYSE in 1998.
- Perdoceo Education offers a unique combination of distance and campus-based education through its two accredited US Universities: Colorado Technical University (CTU) and American Intercontinental University (AIU).
- Formerly known as Career Education, Perdoceo has undergone large restructuring and shedding down of its former operations to a smaller niche business model focusing on growing its digital education capacity.
- Leveraging its digital education services, Perdoceo focuses on targeting older students with 61% of its students being over 30 and 35% being between the ages of 21-30.

Figure 1: Sales Channel Mix

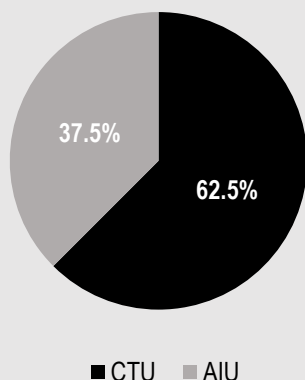
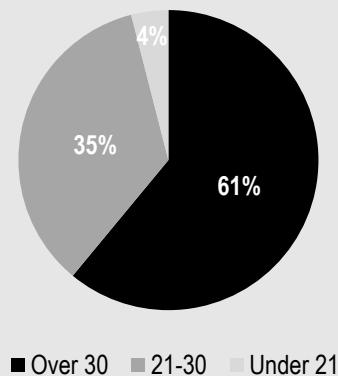


Figure 2: Demographic Mix



Reasons to Invest in Perdoceo Education

Perdoceo Education is a stock that has seemingly went under the radar over the past decade as significant restructuring has transformed the education company into an operationally efficient, profitable and growing business. With traditional US student enrolment growth stagnating and declining -2.5% since March 2020, distance learning represents a clear winner in the space and Perdoceo's focus on building its online infrastructure makes it one step ahead of the competition. On top of its growing niche, Perdoceo's restructuring has led to operating margins increasing from -4.59% in 2016 to 15.68% in 2019.

1. Online Education Represents a Growing Niche in the Structurally Stagnant Education Industry:

- US distance learning enrolment growth rates of 5.84% are largely outgrowing traditional US enrolments growth rates of -0.33%.
- Covid-19 has accelerated the decline in US enrolments with an overall decline of -2.5% since March.
- Perdoceo's acquisition of Trident University in 2019 has significantly bolstered AIU's new student enrolment growth and increased Perdoceo's 2019 new enrolment growth from 1.98% to 14.62%.

Figure 3: Student Enrolment Growth (US)

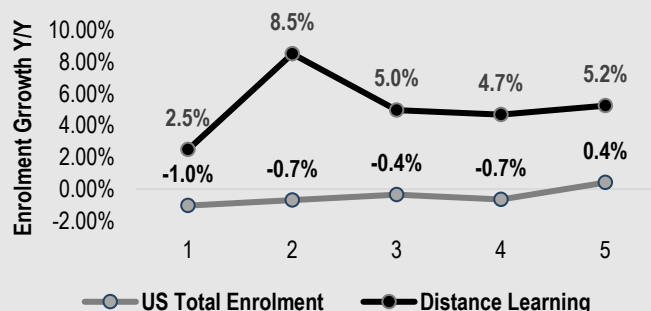
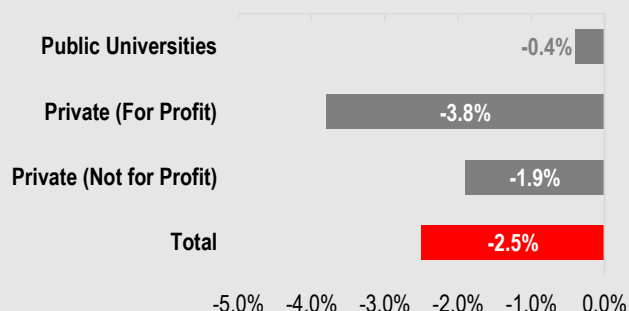


Figure 4: Student Enrolment Decline Figures Post Covid (US)



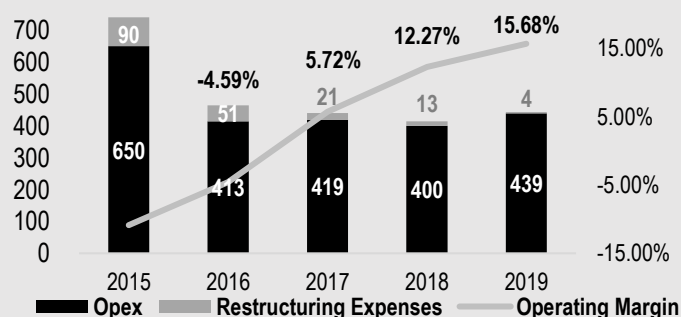
2. Restructuring Complete but Still Heavily Undervalued by Market:

- Perdoceo's significant restructuring over the past decade has resulted in several restructuring expenses; however, these expenses have dropped 96% over the past 5 years and are all but eliminated from the income statement.
- This elimination of restructuring expenses and legal fees has led to the company increasing operating margins from -4.59% in 2016 to 15.68% in 2019, which represents the second-best margins amongst its six peers.
- Perdoceo's EV/EBIT multiple of 7.7x is heavily undervalued compared to peers, where it trades at a discount of 42%.

Figure 5: Restructuring Expenses 2015-2019

Restructuring Expenses	2015	2016	2017	2018	2019
Unused Space Charges	19,496	35,853	12,167	8,416	1,630
Restructuring Charges	7,518	11,015	6,767	2,883	0.0
Loss on Sale of Business	939	737	118	127	0.0
Asset Impairment	60,515	1,164	0.0	0.0	0.0
Total	88,468	48,769	19,052	11,426	1,630
% Change	-	(44.87%)	(60.93%)	(40.02%)	(85.73%)

Figure 6: Opex & Restructuring Expenses vs Operating Margin





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Perdoceo Education Valuation Methodology

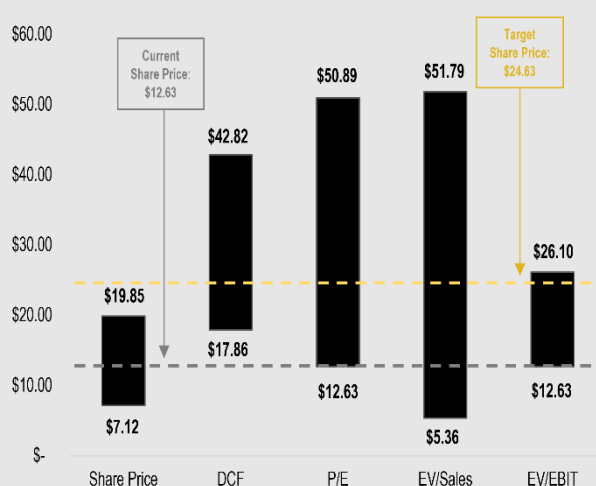
We made usage of an equally weighted discount cash flow (DCF) and comparable company analysis to reach a price target of \$24.63 per share for Perdoceo Education.

- Utilising a DCF, our forecasted revenue growth rate of 8.22% and 238 basis point improvement in operating margins, resulted in a target price of \$24.63 per share and 95% implied upside.
- We compared Perdoceo to its six closest peers in the US education services industry – this included Strategic Education, American Public Education, Zovio, Grand Canyon Education, Lincoln Education and Universal Technical Institute.
- Perdoceo traded at 63% discount in Adj. P/E, 35% discount in EV/Sales and a 42% discount in EV/EBIT.

Figure 7: Perdoceo Education Discounted Cash Flow Model

DISCOUNTED CASH FLOW						
Fiscal Year	2019A	2020A	2021A	2022A	2023A	2024A
Fiscal Calendar Date	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024
EBIT	125,192	142,313	117,556	127,203	137,686	149,116
% Growth	-	0.14	-17.40%	8.21%	8.24%	8.30%
Tax Expense on EBIT	30,184	34,312	28,343	30,669	33,197	35,952
NOPAT	95,008	108,001	89,213	96,534	104,489	113,163
% Growth	-	0.14	-17.40%	8.21%	8.24%	8.30%
Plus: Depreciation	9,145	14,936	16,153	17,478	18,918	20,489
% Growth	-	63.32%	8.14%	8.21%	8.24%	8.30%
Less: Acquisitions of PP&E/Business	5,174	45,038	4,448	4,063	6,147	5,687
% Growth	-	770.48%	(90.12%)	-8.66%	51.29%	-7.48%
Less: Net Change in Working Capital	(18,627)	26,801	10,451	2,844	6,657	6,213
Unlevered Free Cash Flow	117,606	51,097	90,467	107,105	110,804	121,752
% Growth	-	56.55%	0.77	18.39%	3.27%	10.08%
Discount Factor		0.93	0.86	0.79	0.74	0.68
Present Value of UCF	47,327	77,609	85,102	81,397	82,990	
Present Value of Stage 1 Unlevered Free Cash Flows	374,425					
Present Value of Terminal Value	1,302,567					
Enterprise Value	1,676,992					
Less: Debt	64,175					
Plus: Cash	294,175					
Equity Value	1,906,992					
Diluted Shares Outstanding	71,016					
Equity Value Per Share	26.85					
Current Share Price	12.63					
Upside/Downside	112.61%					
		Terminal Value Calculation				
		TV Growth Rate		1.50%		
		2024 UCF		121,752		
		Terminal Value		1,910,961		
		Present Value of TV		1,302,567		

Figure 8: Perdoceo Education Football Field Chart



Future Catalysts:

- **Dec 2020 Annual Report/Q4 Results:** focus on sustained revenue growth between 7-9% as well as continued strong AIU new enrolment growth.
- **E-learning Growth Post Covid 2021/2022:** with Covid accelerating the shift towards e-learning and remote education, continued penetration after Covid could indicate a systemic shift in US education and this not just being a short-term phase.

Investment Risks:

- **CTU & AIU University Ranking:** while not fully reliable, CTU and AIU are ranked in the bottom 25% of Universities in the US which could pose a risk in attracting new enrolment growth.
- **Rival Private Universities Leveraging Bigger Budgets:** Perdoceo's niche in online education and distance learning could be threatened if more prestigious private universities are able to utilise bigger spending power to compete with Perdoceo in this segment of the market.

Disclosure:

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