

McIntire Investment Institute

At the University of Virginia



Long Pitch: Bridgepoint Education Inc. (NYSE: BPI)



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About BPI

Business Profile

- **Time:** Founded in 2004
- **Location:** Headquartered in San Diego, California
- **Business:** a for-profit provider of postsecondary education services
- **Two campuses:** Ashford University, bought in 2005
University of Rockies, bought in 2007
- **Numbers:** 1400 courses, 80 degree programs, and 140 specializations.
77892 students enrolled, 99% attend classes online



Stock Snapshot

Zoom: [1d](#) [5d](#) [1m](#) [3m](#) [6m](#) [YTD](#) [1y](#) [5y](#) [10y](#) [All](#)

Dec 30, 2010 Price: 18.94 Vol: 316.27k



Price (10/20/11): 19.83

Market Cap (10/20/11): 1.1B

52-week spread: \$13.65 - \$30.62

P/E (ttm): 7.27

Forward P/E: 8.24

EPS (ttm): \$2.89

Gross Margin: 73.90%

Operating Margin: 32.34%

Total Debt: 0

Total Cash: 288m



Business Description

Competitive Strength

•Affordable: BPI	APOL
\$372 per credit	\$660
*120 credits	*120 credits
\$44640	\$79200

A bachelor degree offered by APOL is as twice as expensive as it offered by BPI

• Transferability

Up to 99 transferred credits

70% transferred in credits; 44% transferred in 50 credits or more

Making online education offered by BPI even Cheaper



Quality guaranteed

- **Focus on Quality**

Faculty: 10+ years of instructional experience + graduate degrees

Courses development: faculty + third party validation

Result → Survey: satisfaction

Career success



Thesis Points

1. Strong Growth potential
2. Undervalued :Highly profitable but traded at low P/E
3. Market Misperception
4. Favorable macro trend



Thesis 1: Strong Growth Potential

- Expand portfolio of programs and specializations
- Increase enrollment through Marketing, recruiting, and retention
- Further develop strategic relationships in the military and corporate channels
- Potential acquisition of new campuses



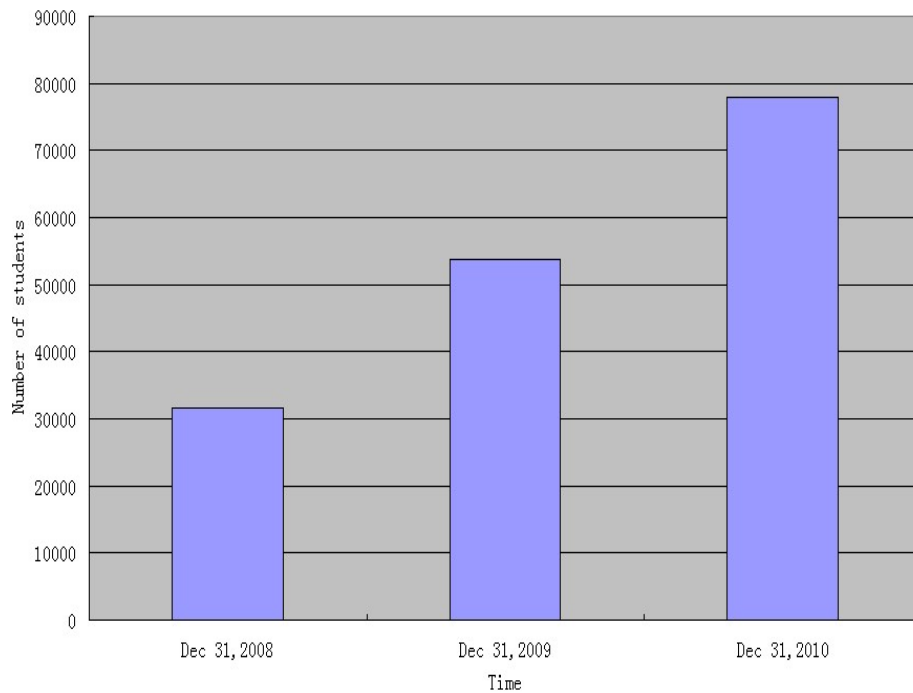
Thesis 1: Growth Strategies

Enrollment

Successful growth strategy

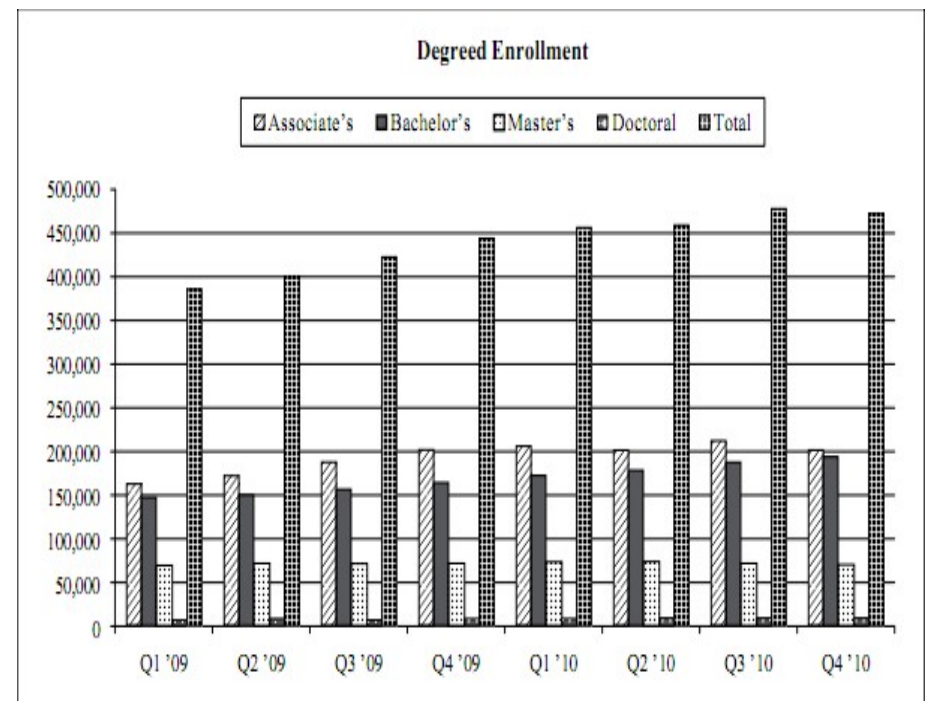
Bridgepoint

Enrollment



APOL

Degreed Enrollment



Thesis 1: Growth Strategies

Sustainable growth

Why is growth sustainable?

Enrollment depends on:

- Competitive strength: **Affordability** **Transferability**
- Enrollment Advisory Service and Online Advertising



Thesis 2: Highly profitable + Low P/E

Direct Competitor Comparison					
	BPI	APOL	COCO	DV	Industry
Market Cap:	1.11B	6.01B	172.12M	3.00B	167.73M
Employees:	6,900	56,971	11,150	10,262	1.73K
Qtrly Rev Growth (yoy):	38.00%	-7.60%	N/A	7.90%	9.90%
Revenue (ttm):	852.64M	4.87B	1.87B	2.18B	183.69M
Gross Margin (ttm):	73.90%	55.39%	40.50%	57.59%	57.62%
EBITDA (ttm):	286.13M	1.42B	209.01M	558.75M	29.61M
Operating Margin (ttm):	32.34%	26.24%	7.33%	22.64%	8.70%
Net Income (ttm):	168.55M	428.87M	-109.69M	330.40M	N/A
EPS (ttm):	2.89	2.94	-1.30	4.68	0.24
P/E (ttm):	7.29	14.83	N/A	9.36	11.69
PEG (5 yr expected):	0.43	1.47	-1.33	0.85	0.88

APOL = Apollo Group Inc.

COCO = Corinthian Colleges Inc.

DV = DeVry Inc.

Industry = Education & Training Services



Thesis 2: Highly profitable + Low P/E



VS



P/E: 7.29



P/E: 14.83

Deeply Undervalued



Thesis 3: Market Misperception

- **Regulatory risks**

Gainful employment Regulation (Two Test)

Requirements:

1. Repayment test: $\geq 45\%$
2. Debt-to-income ratio: $\leq 20\%$

Title IV Program:

Grants and loans give out to students to fund their education if certain requirement is met

2010

-85% of revenue for Ashford University

-85.9% of revenue for Rockies

Misperception: **OVERSTATED** negative impact

-Loan repayment rate $\geq 45\%$

-a Debt Service ratio =8%

→ So unlike its rivals, Bridgepoint can keep growing.....

An opportunity to take up market shares of its competitors

Creating barrier to entry

Risks

- Strong competition
- Unable to retain key personnel
- Regulation risks
- Limited operating history → unrepresentative financial and business results

VAR

Industry:

“...Great business model for people who treat education as an investment good and cannot afford it in terms of time or money...Enormous growth potential of the industry...”

Professor. Elzinga
Economics Department



Conclusion



Is a compelling buy:

1. Strong growth potential
2. Deeply Undervalued
3. Market Misconception

