

Strategic Education

4Q momentum bodes well for 2024

Reiterate Rating: BUY | PO: 124.00 USD | Price: 108.65 USD

Strategic delivers third consecutive EPS beat

Strategic Education's (STRA) \$1.68 4Q23 EPS was above our \$1.38 estimate and \$1.34 Visible Alpha consensus. The beat to our view was on a higher EBITDA margin (24.6% vs. our 20.7%) and higher sales (+12.1% vs. 10.7%). STRA reaffirmed the 2024 operating outlook provided at its 11/2023 Investor Day. This included 4-6% revenue growth and implied ~12% operating margins. We raise our 2024 EPS by 19c to \$4.67; the Street is at \$4.49. We increase our PO to \$124 from \$104 on '25 estimates and lower multiple (21.5x vs 23.0x previously) given softer ANZ enrollment. We reiterate our Buy rating; we view STRA as a beat and raise story.

Sales beat on US enrollment + ANZ course loads

4Q's sales beat was largely driven by US Higher Education's (USHE) higher employer affiliated enrollment (+24% y/y) and higher rev per student due to additional courseloads for international students in Australia/New Zealand (ANZ). Sales also benefited from ANZ's 2023 academic calendar, which was already factored in our outlook. We expect ANZ's revenue per student to stay elevated through 1H24 from courseloads. We model 2024 sales +5%.

Strategic's corporate partnerships paying off

USHE enrollment grew 10.5% y/y above our 9.5%E and the Street's 5.7%E. USHE benefited from increased enrollment from corporate partnerships, which drove 70% of its incremental USHE total enrollment in 2023. 4Q was the fourth quarter of USHE enrollment growth since COVID.

Australia enrollment was still negative in 4Q

ANZ enrollment fell 2% in 4Q. The segment continues to struggle with visa constraints, which makes international enrollment growth more challenging. Management has moved away from calling an inflection on enrollment but remains bullish on the business.

Margins beat expectations with room to grow

STRA's 24.6% 4Q EBITDA margin beat our/the Street's 20.7%/20.6%E. Operating costs grew 1.6% (1.7%E excluding FX). Operating margin was 11.0% in 2023, ~100bp above its plan as of its Investor Day. We model 2024 operating margin +160 to 12.6% and EBITDA margin +100bp to 18.5% driven by tight cost controls, sales leverage, partly offset by investments into its Education Technology Services and ANZ segments.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.51	3.81	4.67	5.73	6.99
GAAP EPS	1.94	2.98	4.58	5.65	6.90
EPS Change (YoY)	-48.0%	51.8%	22.6%	22.7%	22.0%
Consensus EPS (Bloomberg)			4.49	5.32	6.31
DPS	2.40	2.40	2.40	2.40	2.40
Valuation (Dec)					
P/E	43.3x	28.5x	23.3x	19.0x	15.5x
GAAP P/E	56.0x	36.5x	23.7x	19.2x	15.7x
Dividend Yield	2.2%	2.2%	2.2%	2.2%	2.2%
EV / EBITDA*	16.4x	13.5x	12.1x	10.4x	8.9x
Free Cash Flow Yield*	3.1%	3.0%	4.8%	5.6%	6.8%

* For full definitions of *IQmethod*SM measures, see page 4.

04 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	104.00	124.00
2024E Rev (m)	1,182.6	1,197.3
2025E Rev (m)	1,243.6	1,263.3
2026E Rev (m)	1,308.5	1,332.1
2024E EPS	4.48	4.67
2025E EPS	5.58	5.73
2026E EPS	6.81	6.99

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Stock Data

Price	108.65 USD
Price Objective	124.00 USD
Date Established	4-Mar-2024
Investment Opinion	B-1-7
52-Week Range	64.53 USD - 111.95 USD
Mkt Val (mn) / Shares Out (mn)	2,652 USD / 24.4
Free Float	88.2%
Average Daily Value (mn)	8.06 USD
BofA Ticker / Exchange	STRA / NAS
Bloomberg / Reuters	STRA US / STRA.OQ
ROE (2024E)	6.6%
Net Dbt to Eqty (Dec-2023A)	-7.3%
ESGMeter TM	Medium

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Timestamp: 04 March 2024 09:38AM EST

iQprofileSM Strategic Education

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	2.3%	3.6%	5.6%	6.8%	8.0%
Return on Equity	3.6%	5.4%	6.6%	7.8%	8.9%
Operating Margin	6.6%	8.4%	12.4%	14.4%	16.5%
Free Cash Flow	83	80	128	150	181

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.1x	1.3x	1.6x	1.5x	1.5x
Asset Replacement Ratio	0.7x	0.6x	1.0x	1.1x	1.0x
Tax Rate	32.9%	30.7%	30.0%	30.0%	30.0%
Net Debt-to-Equity Ratio	-6.9%	-7.3%	-9.7%	-13.1%	-17.6%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,065	1,133	1,197	1,263	1,332
% Change	-5.9%	6.3%	5.7%	5.5%	5.4%
Gross Profit	468	509	550	593	638
% Change	-10.6%	8.7%	8.0%	7.8%	7.7%
EBITDA	163	199	221	258	302
% Change	-31.4%	21.8%	11.5%	16.7%	17.0%
Net Interest & Other Income	(1)	5	8	10	13
Net Income (Adjusted)	60	89	111	136	165
% Change	-48.3%	47.8%	24.8%	22.3%	21.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	47	70	109	134	163
Depreciation & Amortization	63	57	52	54	59
Change in Working Capital	4	(27)	4	1	0
Deferred Taxation Charge	(9)	(6)	(7)	(7)	(7)
Other Adjustments, Net	21	23	24	25	26
Capital Expenditure	(43)	(37)	(54)	(57)	(60)
Free Cash Flow	83	80	128	150	181
% Change	-36.8%	-3.3%	60.1%	16.6%	21.1%
Share / Issue Repurchase	(40)	(10)	(25)	(25)	(25)
Cost of Dividends Paid	(59)	(59)	(57)	(57)	(57)
Change in Debt	(40)	(40)	(30)	(31)	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	214	182	198	235	334
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	115	161	167	174	180
Property, Plant & Equipment	133	119	121	124	125
Other Non-Current Assets	1,700	1,678	1,675	1,673	1,671
Total Assets	2,162	2,139	2,161	2,205	2,310
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	210	210	220	227	235
Long-Term Debt	101	61	31	0	0
Other Non-Current Liabilities	215	202	195	188	181
Total Liabilities	526	473	446	415	415
Total Equity	1,636	1,653	1,715	1,790	1,895
Total Equity & Liabilities	2,162	2,125	2,161	2,205	2,310

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Education & Training Services

Company Description

Strategic Education is a leading provider of post-secondary education and related training focused on helping advance economic mobility through higher education. It operates accredited universities in the US (Strayer and Capella) and Australia/New Zealand and has a range of other alternative learning offerings (Sophia and Workforce Edge).

Investment Rationale

We have a Buy rating on Strategic Education as we see upside to sales and margins driven by its post-COVID recovery, improved marketing effectiveness, and tight cost control.

Stock Data

Average Daily Volume 74,173

Quarterly Earnings Estimates

	2023	2024
Q1	0.25A	0.64E
Q2	0.82A	1.05E
Q3	0.97A	1.08E
Q4	1.68A	1.82E

Price objective basis & risk

Strategic Education (STRA)

Our \$124 price objective is based on a 21.5x 2025E P/E multiple, a premium to its 20x pre-COVID average (January 2017-July 2020). We expect modest multiple expansion as the company continues to recover post-COVID.

Downside risks include 1) pressure on enrollment from negative macro headwinds, 2) continued delays in Australia's visa program, 3) increased regulatory risks and requirements, and 4) increased competition.

Upside risks are 1) stronger than expected enrollment trends especially among working adults, 2) increased corporate partnerships and enrollments, 3) tighter cost control, and 4) greater than expected capital returns.

Analyst Certification

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US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	API Group	APG	APG US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
NEUTRAL				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
	ASGN Inc.	ASGN	ASGN US	Heather Balsky
	Clarivate PLC	CLVT	CLVT US	Heather Balsky
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$
Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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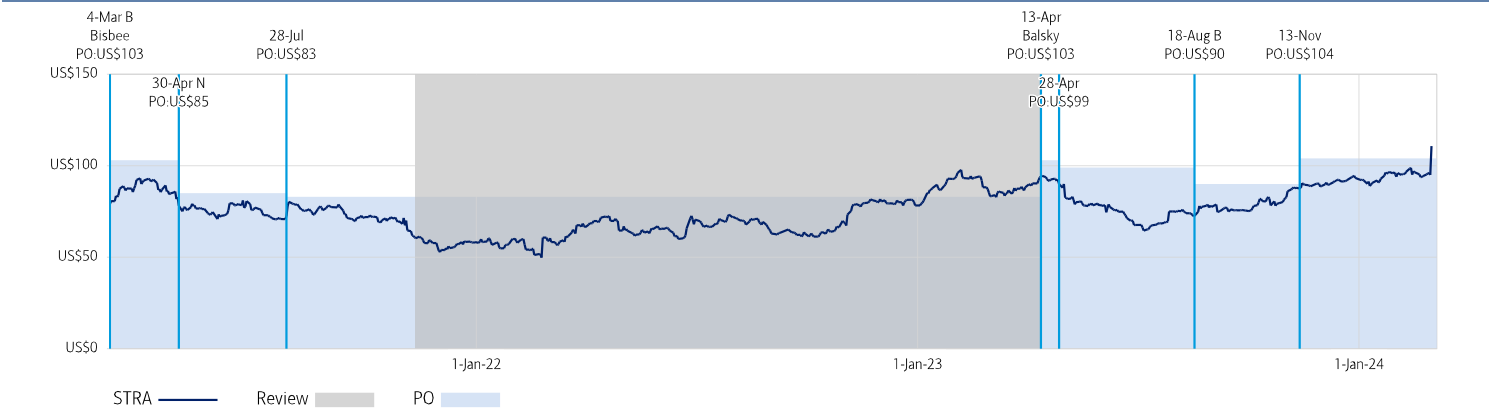
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Strategic Education (STRA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Education & Training Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	8	53.33%	Buy	2	25.00%
Hold	4	26.67%	Hold	1	25.00%
Sell	3	20.00%	Sell	0	0.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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