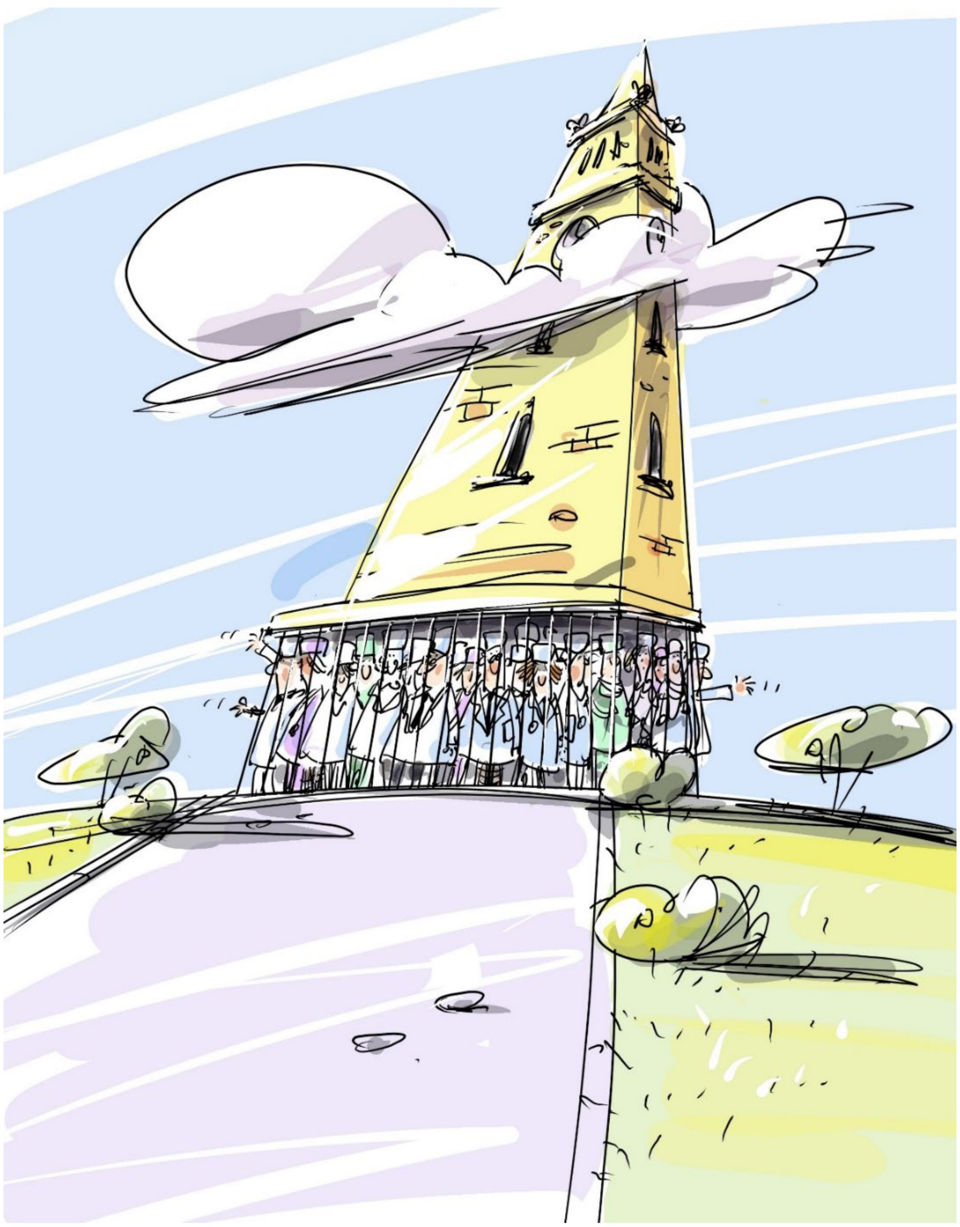
SAFKHET CAPITAL
RESEARCH

Adtalem Global Education

NYSE:ATGE

Purportedly Latin for "to empower," but a name as imaginary as an ivory tower veneer over a debtor's prison



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Dedication

All of us over at SCR took on debt, including federal student loans, in order to obtain our degrees. We empathize deeply with the plight of student borrowers and the desperation to receive a quality education without the lifelong financial burden of indebtedness. We are fortunate to be in a position to advocate for those borrowers using our tools in the capital markets and we hope we are able to help them find justice. This report is dedicated to all of us who had to borrow money to get ahead. We would also like to give special thanks to all of our colleagues, supporters, and loved ones who encouraged us to take this first step into more formal public advocacy for the causes we invest in.

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Important Definitions

AUC: American University of the Caribbean
CAAM-HP: The Caribbean Accreditation Authority for Education in Medicine and Other Health Professions
DOJ: United States Department of Justice
ECFMG: The Educational Commission for Foreign Medical Graduates
ED: The United States Department of Education
FSA: Federal student aid
FTC: Federal Trade Commission
HLC: The Higher Learning Commission
PPA: Program Participation Agreement
RUSM: Ross University School of Medicine
RUSVM: Ross University School of Veterinary Medicine
Title IV: Title IV of the Higher Education Act of 1965, which authorizes federal financial aid programs for postsecondary education (34 CFR 668)[1]
WFME: The World Federation of Medical Education

[1] Part 668 - Student Assistance General Provisions of the Higher Education Act of 1965, as amended on January 8, 2024 https://www.ecfr.gov/current/title-34/subtitle-B/chapter-VI/part-668

Adtalem Global Education (ATGE)
As of January 29, 2024
Price: $60.37
Market Cap: $2.4 B
Enterprise Value: $3.0 B
Average Daily Liquidity: $20 M
Aggregate Short Interest (Markit data as of 1/12/24): 3.36%

1. Executive Summary

In Q3 2023, student loan debt grew to $1.6 trillion and represents nearly 10% of the average American household debt.[2] Much of this debt can be attributed to traditional, non-profit university operators that reinvest their profits back into their institutions and typically graduate most of their students. However, an eyewatering 20% of this outstanding student loan portfolio went to for-profit universities.[3] **For-profits produce disastrously substandard results with most students unable to graduate, and even those who do face high levels of underemployment and higher levels of indebtedness**.

Adtalem Global Education (ATGE) is a for-profit university operator that has benefited from billions in public funds, last year collectively bringing in more Title IV funding than any public, non-profit, or proprietary institution. Since 2016, ATGE has received $11.34 billion in federal student loan disbursements.[4] We believe the business model is simple: fast and loose admissions made possible by aggressive and sometimes deceptive tactics.

ATGE's portfolio is comprised of Chamberlain University and Walden University, which offer mostly healthcare-focused degree and non-degree programs; the American University of the Caribbean School of Medicine (AUC) and the Ross University School of Medicine (RUSM), which offer medical doctorates; and the Ross University School of Veterinary Medicine (RUSVM), which offers veterinary medical doctorates.

Across the ATGE schools are students with a genuine desire to contribute through service, and like all of us, build wealth for their families. These students are funneled into a system where they may be:

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[2] "Household Debt and Credit Report, Q3 2023," Federal Reserve Bank of New York, Center for Microeconomic Data. https://www.newyorkfed.org/microeconomics/hhdc

[3] Portfolio by Loan Status, Department of Education, Federal Student Aid. https://studentaid.gov/data-center/student/portfolio

[4] Federal Student Aid, Title IV Program Volume Reports. Loan Volume, Direct Loan Program. Annual Year Summary in AY 2015-2016, Q4; AY 2016-2017, Q4; AY 2017-2018, Q4; AY 2018-2019, Q4; AY 2019-2020, Q4; AY 2020-2021, Q4; AY 2021-2022, Q4; and AY 2022-2023, Q4 Reports. https://studentaid.gov/data-center/student/title-iv

1. Strung along for years, with no clear path towards graduation,
2. Used as a liquidity tap, but discarded before they can be a drag on the quality metrics used to attract prospective students,
3. Or denied an education sufficient for career success or even eventual full loan repayment.

Whether years of what we see as educational purgatory results in a diploma or not, some ATGE students are saddled with hundreds of thousands in federal debt, which they may never be able to pay back. These losses are forced upon US taxpayers, who are responsible for the nearly $2 trillion in student loan balances.

Fortunately, these business models can rarely outrun their own greed and cyclicality. We believe ATGE is teetering towards a reckoning as its nearsighted business decisions clash with historically high interest rates, looming regulations, and a generation of students now empowered to fight back.

Through this report, we will show the reader how we conclude:

- **ATGE should impair its $1.48 billion acquisition of Walden,** which was booked as $651 million in goodwill and $833 million in intangible assets. We highlight material risks to Walden's eligibility to receive federal student aid, which will affect its ability to operate. We also believe these impairments may also be viewed as necessary in light of ATGE's divestiture of DeVry and its impairment testing across its other assets. We call for a further review by ATGE's auditors, who have not changed in the past 33 years. Such a long auditor tenure can sometimes result in either auditing negligence or willful blindness.

- **Enrollment trends show stagnation with multi-year declines** in the medical and veterinary schools, now poised to deteriorate further as superior, more affordable options become available onshore. Walden enrollments are down nearly 50% since their peak in 2015 and 35% since the deal to acquire Walden was announced.

- **Graduation rates and attrition across all ATGE schools are trailing far behind national averages**. RUSM which receives the most federal funding of all ATGE schools, for the fewest number of students, has an under 16% on-time graduation rate compared to 84% for onshore medical schools. Apart from RUSVM, all ATGE graduation rates are below 40%, compared to the 64% national average.

- **We believe the gainful employment rule will likely result in the closure of numerous ATGE degree programs**. Our analysis based on 2023 data concludes that approximately 50% of Walden's programs fail the debt-to-earnings test of gainful employment. If unresolved, ATGE could lose 25% of revenues by 2027. Similarly, based on available data, we believe RUSVM will also fail gainful employment, which could result in an additional 7%+ revenue loss by 2027.

- <u>The 90/10 rule changes along with its reaccreditation process may pose an existential risk to RUSM and a nearly 20% hit to ATGE revenues today</u>. For-profit universities are limited to generating 90% of their revenues from all federal funding sources. Of all ATGE schools, RUSM is the closest to breaching the 90% revenue limit. We suspect that there may be various accounting maneuvers on how ATGE counts non-federal revenue, which the Department of Education (ED) may not agree with as part of the new rule.[5] RUSM is also facing a delayed and protracted reaccreditation process. Both a 90/10 failure and a loss of accreditation would likely result in an RUSM closure.

- <u>Two months ago, ED launched an investigation into Walden that ATGE has not yet disclosed</u>. This was disclosed by ATGE's accreditor for Walden, the Higher Learning Commission (HLC).[6] An ED investigation involves the review of facts to determine whether there have been violations and, if enforcement action is deemed appropriate, it could be followed by subsequent litigation by the FTC, and potentially also by the DOJ and other government agencies.

- <u>The borrower defense program will likely exacerbate the financial losses</u> around any investigations, as it would prompt a high volume of new claims and filings by students as occurred following ATGE's FTC settlement for DeVry. At the time of its divestiture of DeVry, ATGE had estimated at least $340 million in liability.[7] The borrower defense program offers students of closed and deceptive schools the ability to obtain loan forgiveness; it also provides a path for the government to recoup those taxpayer losses. We have conducted interviews with ATGE students who have filed claims successfully and/or are awaiting their claims to be approved.

- <u>Expired program participation agreements (PPA) create the risk of greater collateral requirements and delays in the permitted drawdown of federal funds</u>. In PPAs, ED defines restrictions on federal student loan disbursements. This could result in an immediate threat to working capital. Additionally, expired PPAs at large schools in the past foreshadowed the subsequent closures of those schools. ED is empowered by law to use PPAs to hold operators accountable for the security of federal funds; for ATGE all but Chamberlain's PPA is either expired or provisional.

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[5] "Education Department Unveils Final Rules to Protect Veterans and Service Members, Improve College Access for Incarcerated Individuals and Improve Oversight When Colleges Change Owners," Department of Education. October 27, 2022. https://www.ed.gov/news/press-releases/education-department-unveils-final-rules-protect-veterans-and-service-members-improve-college-access-incarcerated-individuals-and-improve-oversight-when-colleges-change-owners

[6] Higher Learning Commission, Public Disclosure, Walden University. Designation: Governmental Investigation. Updated November 29, 2023. https://www.hlcommission.org/download/_PublicDisclosureNotices/Updatd%20PDN%20Walden%20University%20-%20Governmental%20Investigation.pdf

[7] ATGE SEC Form 8-K, dated December 11, 2018. https://www.sec.gov/Archives/edgar/data/730464/000115752318002563/a51912911.htm

- Corinthian Colleges and its 2015 bankruptcy suggest numerous parallels to ATGE. At the time of its collapse, Corinthian had no preexisting letters of credit with ED, suggesting that they were not in financial distress, despite previous accusations of consumer fraud, deceptive tactics, and on-going investigations. However, the loss of Title IV funding and the resulting unexpected liquidity constraint were an immediate shock to Corinthian's ability to continue operating. Such sudden liquidity events could quickly lead to school closures.

- **ATGE has bought back shares representing 10% of their total federal student loan disbursements since 2017.** We believe such a use of taxpayer funds is questionable. It seems possible that ATGE is the primary buyer of its stock, as there is limited active institutional ownership; ATGE management stand to be the biggest beneficiaries.

- **ATGE's updated executive compensation policy is a risk to long-term shareholder value**. We believe the 2023 change in performance metrics from return on invested capital and free cash flow in favor of revenue growth and EBITDA margin, provides the wrong incentive to ATGE's management, while increasing legal and regulatory risks for the long-term shareholder.

We believe that with every step, ATGE executives have severely understated the existential nature of the risks above. Historically, both at ATGE at the time of the FTC's investigation into DeVry and at for-profit universities that eventually collapsed, there was little signaling to investors ahead of major repricing events. Considering this, and the quantum of investigative and regulatory pressure, **we find ATGE's future contains far too many potentially great and existential risks which are not adequately reflected in its current value.**

With American debt-to-GDP breaking records, the question of student loans—and federal funding—is no longer acutely political. Funding granted to for-profit operators with empirically poor standards and outcomes have created a lost generation of Americans with inescapable debt, generating billions in losses to taxpayers. While students at for-profit universities believed they were chasing the American dream, they were instead left behind in today's ultracompetitive job market, holding worthless pieces of paper.[8] Additionally, we have gathered evidence through heartbreaking interviews from former students at ATGE schools; one former Walden student broke down in tears as she described a grueling 14-year, $800,000 battle for her PhD, at the end of which, she was left without a degree.

We, as the taxpayers, have entrusted these institutions with our own hard-earned money, but that trust is conditional and it is nigh time for us to make that clear. Shareholders too, should consider how the

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[8] Newton, Derek. "20,000 More Reasons to Never Go To A For-Profit School," Forbes. December 9, 2018. https://www.forbes.com/sites/dereknewton/2018/12/09/20000-more-reasons-to-never-go-to-a-for-profit-school/?sh=6aa325ed30e5

ATGE business model is dependent on a constant flow of federal funds and how myopic price-friendly actions like buying back hundreds of millions in stock, will further erode the cushion with which ATGE can manage potential funding losses and restrictions.

Our affiliate, Safkhet Capital Management LLC ("SCM"), an investment adviser, has a history of shorting situations where SCM believed predatory behaviors would lead to sustained fundamental deterioration, as these are not often considerations made by more traditional investors. Valeant Pharmaceuticals for example, eventually saw a 90% repricing as it lost its ability to astronomically raise drug prices, thanks to the court of public opinion. SCM warned of the financial ruin that would accompany any diminished ability to launder money through Wirecard, but while Wirecard executives taunted us for not understanding their business; several of those executives now sit in prison.

We have strong faith in the market's ability to correct ethical and moral failings. We intend to show here, and through our continued efforts, that ATGE is problematic at all levels: whether for the taxpayers, the students who enroll, or their shareholders. Radical change and rigorous oversight will be necessary to avoid further or even existential losses, and we are prepared to advocate precisely for that.

2. <u>Current State of Affairs</u>

Universities act as fiduciaries of taxpayer dollars; we the people, underwrite the education of millions of students each year, with the expectation that this education will help lift those students into careers which will serve our communities and contribute constructively to the American economic engine. Indeed, despite assaults on and disillusionment with the "American dream," higher education has remained a steady beacon of American exceptionalism. Through this, universities are not only beneficiaries of public money, but are part of the process of shaping the future of our nation.

With such responsibility, there must also come appropriate accountability and oversight. What the reader may not realize is that every institution that receives Title IV funding—which is federal student aid governed by Title IV of the Higher Education Act—must have a Program Participation Agreement (PPA). The PPA is essentially a contract between the school and the Department of Education (ED) that at minimum, will state that the school agrees to comply with all laws appliable to Title IV programs, that the school's campuses meet Title IV requirements, and that any Title IV funds received, including interest earned, must be used solely for the administration of the specified Title IV program. A PPA is a safeguard for students, and for all of us; it is a green flag demonstrating that it is safe for the government to finance degrees awarded by a particular school.[9]

Schools are further subject to an annual examination by ED to ensure that they maintain the standards necessary to participate in the Title IV programs. ED pays special attention to systemic risk and financial

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[9] Part 668.14 – Program Participation Agreement. Student Assistance General Provisions of the Higher Education Act of 1965, as amended on January 8, 2024 https://www.ecfr.gov/current/title-34/subtitle-B/chapter-VI/part-668#668.13

health; in fact, ED issues a "financial composite score" to quantify the financial responsibility of a school, considering both financial health and performance standards. This score can be described as Basel-lite; it includes calculation of a primary reserve ratio, equity ratio, and net income ratio. Schools scored above 1.5 are deemed financially responsible; schools with scores less than 1 are only deemed responsible if at least 50% collateral is posted, otherwise they are not considered financially responsible and will be subject to additional institutional requirements or restrictions.[10]

The office within ED responsible for enforcing these directives has 7 employees. 7 employees looking after 5,500 schools.[11] While some may argue that this is a welcome rare instance of minimalist bureaucracy, through the lack of oversight, higher education has given carte blanche to higher education to profit from tax dollars and selling dreams to the young and vulnerable. Without adequate monitoring and enforcement of existing rules, we normalize the unconditional surrender of our taxpayer dollars; and rather than the nation paying it forward for our next generation, we saddle them with unmanageable debt and sometimes practically worthless degrees.

Most of the ATGE schools do not have active PPAs, which means that the ED can impose additional requirements for continued access to Title IV funds, and ATGE itself has been designated as not financially responsible by ED, which comes with additional oversight, letters of credit, and heightened cash monitoring of Title IV funds.[12] As a levered roll-up of various and disjoint educational institutions, ATGE has created what we believe is a business with complexities that may be difficult for an understaffed ED to untangle. Investors too, are largely fed financials with inadequate context regarding the specific regulatory burdens on ATGE and future rule changes, both enacted and pending. Here we seek to present a holistic analysis of ATGE readers may use to assess the sustainability of ATGE's business and its investability in the longer term.

I. A Tale of Two Deals: Divesting DeVry and Acquiring Walden

Prior to assuming the fake Latin "Adtalem" name,[13] ATGE operated as DeVry Education Group (DeVry),[14] named after the original founder of DeVry Technical Institute.[15] Some of you may recall their

[10] "Financial Responsibility Composite Scores." Department of Education. https://studentaid.gov/data-center/school/composite-scores

[11] "Higher Education: Department of Education Should Improve Enforcement Procedures Regarding Substantial Misrepresentation by Colleges," U.S. Government Accountability Office. GAO-23-104832. Published December 13, 2022; Released January 12, 2023. https://www.gao.gov/products/gao-23-104832

[12] ATGE SEC 10-Q, for the period ending September 30, 2023. https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023016860/atge-20230930x10q.htm

[13] Hensley-Clancy, Molly. "Troubled Colleges Rebrand Under Faux-Latin names," BuzzFeed.News. July 20, 2017. https://www.buzzfeednews.com/article/mollyhensleyclancy/troubled-colleges-rebrand-under-faux-latin-names

[14] "DeVry Education Group Becomes Adtalem Global Education," May 24, 2017. https://investors.adtalem.com/press-releases/press-releases-details/2017/DeVry-Education-Group-Becomes-Adtalem-Global-Education/default.aspx

[15] DeVry, "Our History." https://www.devry.edu/about.html

prolific TV ads from the 80s and 90s: young men sometimes in lab goggles, sometimes in hard hats, always in suits, extolling the virtues of their DeVry education, all with a catchy John Carpenter-esque soundtrack.[16] The ads often competed with similar ads from ITT Technical Institute for primetime space, but they also played on weekend mornings, subconsciously conditioning millennial children to believe that DeVry or ITT are the pinnacle of higher education. ITT Technical Institute shut down all of its schools and declared bankruptcy in 2016.[17]

You may be wondering then, given the long history of DeVry and the *goodwill* and nostalgia attached to the name, why ATGE would throw it all away?

Well, it turns out DeVry's ads were as deceptive as they were cheesy. In January 2016, the FTC brought an enforcement action against DeVry and ATGE, "alleging that DeVry's advertisements deceived consumers about the likelihood that students would find jobs in their fields of study, and would earn more than those graduating with bachelor's degrees from other colleges or universities."[18] This culminated in a $100 million settlement in December 2016 and severe restrictions on the way DeVry could represent itself to students.[19] This has also led to the on-going discharge of federal student loans by over 16,000 borrowers who attended DeVry.[20] Not all publicity is good publicity, and when your company's name is shared by a network of schools that the FTC just filed a consent order against, bad publicity becomes objectively bad for business. Naturally the FTC's actions resulted in declining enrollments at DeVry, risking a knock-on effect across the rest of ATGE's portfolio.

Over the past century shareholder concerns have been the ruling governance model. From the point the FTC sued DeVry to when it was divested, ATGE traded, on average, at cheaper prices than ever in its three-decade history. The capital markets are a powerful force and even though DeVry represented anywhere between 30% to 50% of ATGE's total enrollments, it was necessary for ATGE to part ways with the asset to soothe its ailing discount rate. Do not be mistaken: though divestiture was seen as necessary by investors, this was for purely reputational reasons.

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[16] DeVry Commercial Example - https://www.youtube.com/watch?v=qw2g3ku61Yw

[17] "ITT Educational Services Files for Bankruptcy After Aid Crackdown," The New York Times and Reuters. September 17, 2016. https://www.nytimes.com/2016/09/18/business/itt-educational-services-files-for-bankruptcy-after-aid-crackdown.html?action=click&module=RelatedCoverage&pgtype=Article&region=Footer

[18] "FTC Brings Enforcement Action Against DeVry University," Federal Trade Commission. January 27, 2016. https://www.ftc.gov/news-events/news/press-releases/2016/01/ftc-brings-enforcement-action-against-devry-university

[19] "DeVry University Agrees to $100 Million Settlement with FTC," Federal Trade Commission. December 15, 2016. https://www.ftc.gov/news-events/news/press-releases/2016/12/devry-university-agrees-100-million-settlement-ftc

[20] Borrower Defense Updates, Department of Education. https://studentaid.gov/announcements-events/borrower-defense-update#devry-etc-discharge

Figure 1. DeVry in the 80s; note they were at least transparent that the suited man with briefcase leaving a sedan was a "simulation."

In December 2018, ATGE completed its sale of DeVry to a private for-profit operator, Cogswell Education, for "deminimis consideration" and recorded a $21.7 million loss in the quarter.[21] Further, ATGE had to throw in various enticements to sweeten the deal—or in other words, pay Cogswell to assume ownership of DeVry:

1. Payment of $8.75 million for working capital,
2. Transfer of $39 million in cash and restricted cash,
3. Maintenance of DeVry's letter of credit with the ED for the greater of 10% of DeVry's annual Title IV disbursements or $68.4 million for five years,[22]
4. And guaranteed indefinite indemnification of Cogswell for up to $340 million.

Now, under normal circumstances and at perhaps any other company, if such a deal occurred, we contend that investors would be out in the streets with pitchforks, seeking out the head of whoever was responsible. DeVry was on average the single largest contributor to ATGE's top and bottom-line. However, the massive crater that a DeVry divestiture would leave in ATGE was still worth it, even if ATGE literally had to pay for it, because in our opinion, *that* is how existential a risk bad publicity and regulatory investigations pose to for-profit universities. In fact, even now, 5 years on, ATGE is still losing money courtesy of this deal and has already purportedly paid at least one-half of the guaranteed $340 million indemnity.[23]

[21] ATGE SEC Form 8-K, dated December 11, 2018. https://www.sec.gov/Archives/edgar/data/730464/000115752318002563/a51912911.htm

[22] ATGE SEC Form 10-Q, for the period ending December 31, 2018. https://www.sec.gov/Archives/edgar/data/730464/000114420419005592/tv511687_10q.htm

[23] BMO 2023 Growth & ESG Conference, December 5, 2023. https://blinks.bloomberg.com/screens/DOCV%20TRAN%20SD000000003027600856

However, we now see that the DeVry-sized crater in 2018 was unacceptable in the long-term for a publicly traded company that is valued upon growth and future cash flows. By late 2019, another for-profit operator Laureate Education (LAUR), engaged Goldman Sachs to identify acquirers for a number of assets they hoped to divest as part of a broader restructuring. One of those assets was Walden University (Walden), a private, largely online school, founded in 1970, offering bachelor's, master's, and doctoral degrees as well as other certifications. Walden's enrollments peaked in 2015, with over 70,000 students, but it also began to face a spate of bad publicity in tandem with DeVry in 2016. LAUR wrote, that they "had begun evaluating potential strategic alternatives with respect to Walden University because of, among other reasons, a potential decline in the for-profit online education market due, in part, to increased competition from not-for-profit institutions and online program management providers and the perceived uncertainty regarding the federal regulatory environment in the coming years."[24] And as big as DeVry was, <u>Walden did and still does receive more federal dollars for graduate programs than almost any other institution</u>.[25] A Brookings Institute analysis from 2015 also showed that Walden student debt levels were 2nd highest of all institutions receiving federal funds; DeVry was 4th on that list.[26]

As early as May 2019, LAUR's board identified ATGE as a potential acquirer for Walden and by October 2019, LAUR and ATGE management met formally. Through a protracted bidding process starting at $940 million, ATGE eventually won at $1.48 billion, after several increased bids even after all other potential buyers dropped out.[27]

The $1.48 billion purchase agreement was then presented to the market on September 11th, 2020.[28] <u>Five days later, LAUR informed ATGE that the DOJ was investigating Walden for deceptive advertising and misrepresentation to one of Walden's accreditors</u>.[29] By August 2021, ATGE completed its acquisition of Walden.[30]

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[24] LAUR SEC Schedule 14C, filed November 9, 2020.
https://www.sec.gov/Archives/edgar/data/912766/000110465920123077/tm2034931-1_prem14c.htm#tBOTC

[25] Federal Student Aid, Title IV Program Volume Reports. Loan Volume, Direct Loan Program. Annual Year Summary in Q4 Reports. https://studentaid.gov/data-center/student/title-iv

[26] Looney, Yannelis, Hoxby, Pence. "A crisis in student loans? How changes in the characteristics of borrowers and in the institutions they attended contributed to rising loan defaults," Brookings. Fall 2015. https://www.brookings.edu/articles/a-crisis-in-student-loans-how-changes-in-the-characteristics-of-borrowers-and-in-the-institutions-they-attended-contributed-to-rising-loan-defaults/

[27] LAUR SEC Schedule 14C, filed November 9, 2020.
https://www.sec.gov/Archives/edgar/data/912766/000110465920123077/tm2034931-1_prem14c.htm#tBOTC

[28] ATGE SEC 8-K dated September 11, 2023.
https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000115752320001256/a52287598.htm

[29] ATGE SEC 10-Q, for the period ending September 30, 2020.
https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837020012896/atge-20200930x10q.htm

[30] ATGE SEC 8-K dated August 12, 2021.
https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000115752321001048/a52475947.htm

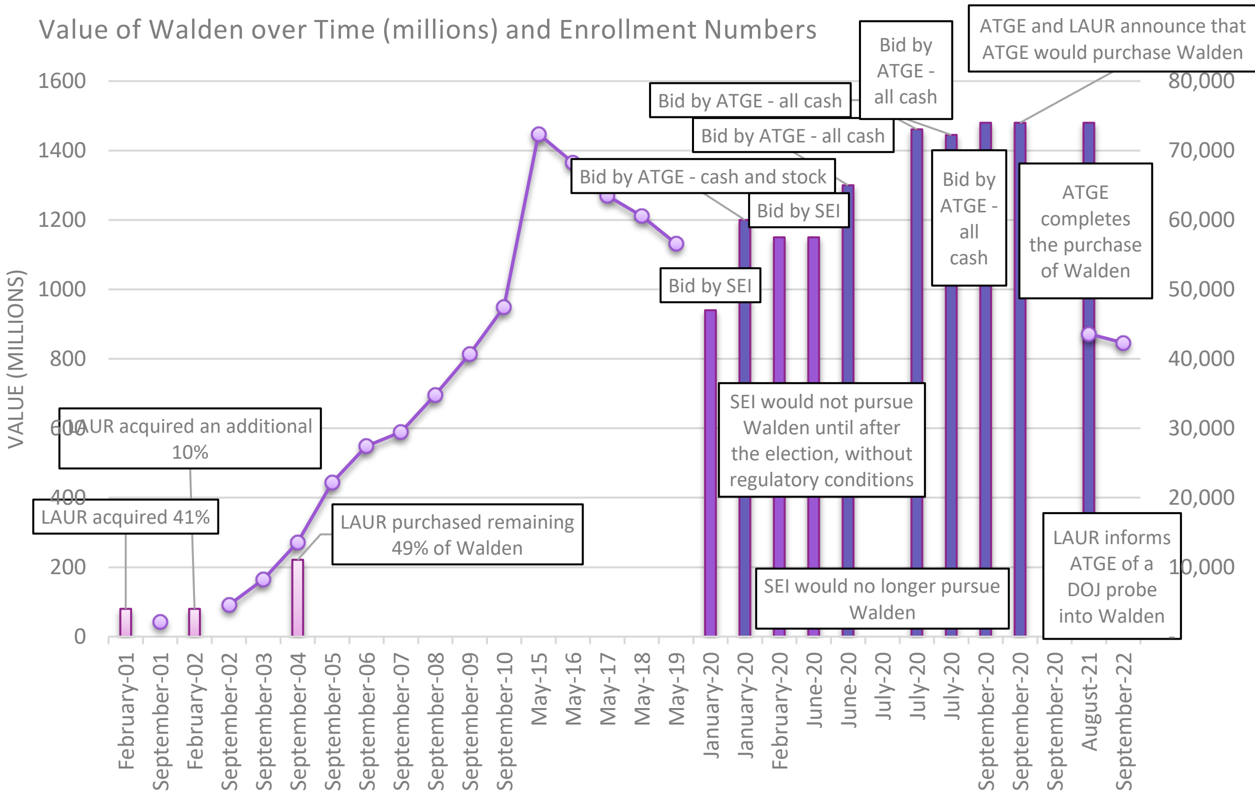

Figure 2. Valuation of Walden University over time in millions, and enrollment figures as reported. Excludes enrollment counts from 2010 through 2015. Missing enrollment figures are unknown.

After the deal was closed, LAUR booked a gain on sale of $619.4 million, implying a $900 million value for Walden on its books. LAUR's auditors had already flagged valuations as a critical audit matter.[31] Further, Walden held over $83.6 million in cash to collateralize its participation in Title IV programs.[32] This cash was stripped out of Walden as part of the transaction and remained with LAUR, yet another consideration in assessing the extent to which ATGE overpaid for the asset. LAUR purchased an asset that provided it with nearly ten solid years of growth; ATGE paid nearly 10x more, in a process where it seemingly bid against itself, for a school with declining enrollments and profitability.

In the words of a former ATGE C-suite executive,

[31] LAUR SEC 10-K, for the period ending December 31, 2021.
https://www.sec.gov/ix?doc=/Archives/edgar/data/0000912766/000162828022003638/laur-20211231.htm
[32] LAUR SEC 10-Q, for the period ending June 30, 2021.
https://www.sec.gov/ix?doc=/Archives/edgar/data/912766/000162828021015673/laur-20210630.htm

"They overpaid for the assets… you have some of the programs, which were not making any profit or any money at all… overpaying and less margin, a lot less margin. It didn't make much sense at the time."[33]

How does the company rationalize paying to rid itself of one toxic asset, only to purchase an expensive and arguably equally toxic asset?

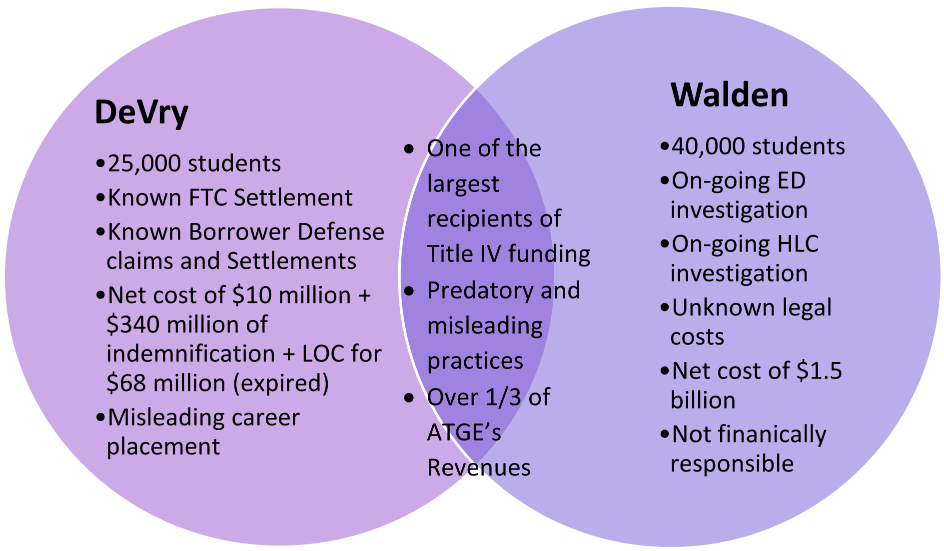

Figure 3. Comparison of the sale of DeVry University and the purchase of Walden University.

One sympathetic argument could be that Walden's issues are historical and under ATGE's more diligent and measured leadership, Walden could shed its reputation and be elevated to a reputation and profitability more comparable to ATGE's Chamberlain University. You should consider two unavoidable fallacies that arise from this argument:

1) Assuming the issues are historical, ATGE is still liable for any penalties and remedies related to those historical issues, ranging from regulatory litigation, class action lawsuits, borrower defense claims, and literally anything else.
2) The Department of Education launched a brand-new investigation into Walden University on November 27th, 2023 over two years after ATGE assumed ownership, and still undisclosed by the company.[34]

[33] Conversation with a former ATGE executive conducted on January 15, 2024.
[34] Higher Learning Commission, Public Disclosure, Walden University. Designation: Governmental Investigation. Updated November 29, 2023.

Now, let us recall the circumstances of the DeVry divestiture, which was celebrated by investors with a sigh of relief. In exchange for massive damage to fundamental metrics and continued liabilities, ATGE was able to dissociate itself with a school marred by bad publicity. Only then, ATGE raised $1.4 billion in debt to finance a $1.48 billion acquisition of Walden, without any liability protection for ATGE or its shareholders.[35] This also likely prompted ATGE's decision to divest other high quality non-Title IV programs to manage debt, essentially doubling down on programs which carry greater regulatory risk and exposure.

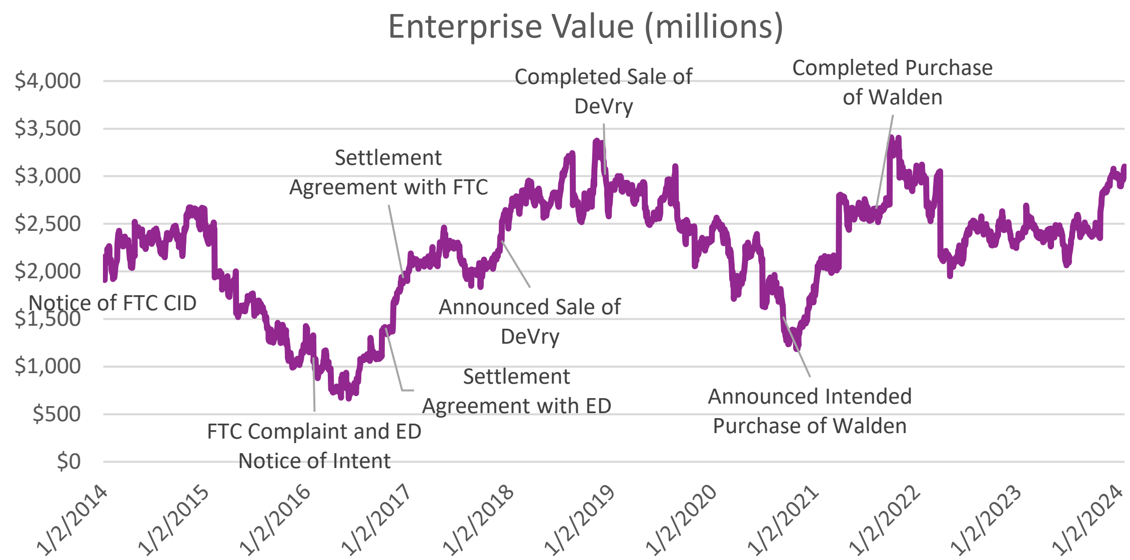

Figure 4. Enterprise Value of ATGE from 2014 through January 21, 2024. Data retrieved from Bloomberg LP.

While it is no surprise that investors have short memories, we believe that, especially in an industry so burdened by ethical fears and regulatory constraints, perception can indeed be reality. When a school, or a school operator, is consistently confronted with allegations of improper marketing and of producing deeply indebted and underemployed students, then perhaps investors must consider more than quarterly earnings and stock price momentum. These reputational risks undoubtedly affect fundamentals over time, but they can also quickly turn what may have begun as a public relations nightmare into an existential crisis with the threat of losing government funding.

II. Basel Accords for Higher Ed: ED Scoring and Financial Responsibility

https://www.hlcommission.org/download/_PublicDisclosureNotices/Updatd%20PDN%20Walden%20University%20-%20Governmental%20Investigation.pdf

[35] ATGE SEC 10-K, for the period ending June 30, 2021. https://www.sec.gov/ixviewer/ix.html?doc=/Archives/edgar/data/0000730464/000155837021011957/atge-20210630x10k.htm

It is unlikely that any investors have ever considered analyzing publicly traded for-profit universities under a framework more suited for financial institutions than consumer services businesses. Granted, ATGE isn't a bank and does not produce financial statements as one, but we find it important to conduct this exercise to better understand how the primary benefactor of ATGE—the US government—views its financials. In practice, the objectives of ED are analogous to that of the Fed; to ensure customer funds are safe and to protect against systemic risks.

It is our understanding that ATGE has dedicated resources to internally track their ED composite score; though it is not a metric that is deeply considered by, or even familiar to, investors, in our opinion it is mission critical. Ultimately, this score dictates how much Title IV funding ATGE can take in and can be seen as establishing the upper limit of its revenue, and thereby of its growth. It also dictates ATGE's working cash flow and ATGE's use of capital and debt, since the lower the score, the more the ED can require ATGE to collateralize to continue accessing the vital Title IV funds. As of fiscal year 2022, ATGE reported that at least 72% of its revenue was from Title IV funding.[36]

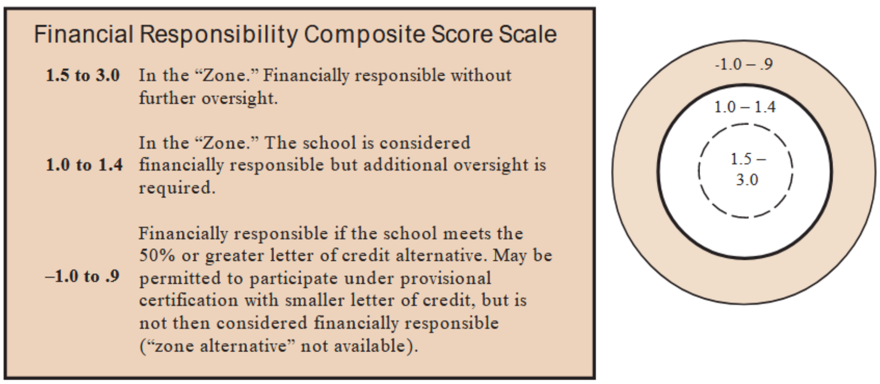

Figure 5. Financial Responsibility Composite Score Scale.[37]

Though ATGE regulatory analysts diligently calculated this score over the years, for nearly all of its history, ATGE was clearly "in the Zone." Its composite score was always above 1.5, that is until… the acquisition of Walden. In September 2023, ED notified ATGE that ATGE's financial composite score fell from over 1.5 to 0.2 for the 2022 school year.[38] As ATGE does not necessarily have the liquidity to provide a letter of credit equivalent to 50% of its Title IV disbursements, this score shows that it is not considered financially responsible.

[36] ATGE SEC 10-K, for the period ending June 30, 2023.
https://www.sec.gov/ix?doc=/Archives/edgar/data/730464/000155837023014509/atge-20230630x10k.htm

[37] "Financial Responsibility," Institutional Eligibility and Participation, 2002-2003, Chapter 4. Page 2-61.
https://fsapartners.ed.gov/sites/default/files/2021-03/0203V2C4.pdf

[38] ATGE SEC 10-Q, for the period ending September 30, 2023.
https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023016860/atge-20230930x10q.htm

As of December 2023, Walden University was included in ED's list of schools on "heightened cash monitoring"—these schools are subject to enhanced oversight of financial and federal compliance issues. ED makes this designation after it finds,

> *… "compliance issues including but not limited to accreditation issues, late or missing annual financial statements and/or audits, outstanding liabilities, denial of re-certifications, concern around the school's administrative capabilities, concern around a school's financial responsibility, and possibly severe findings uncovered during a program review."*[39]

It turns out we are not the only ones skeptical of the carrying value of Walden University on ATGE's books.

On its Q1 2024 earnings call last October 2023, executives downplayed the significance of this dramatic score change, calling the score a "bespoke calculation" where,

> *"you get credit for some assets and not for others… one category of assets that gets excluded from the calculation are intangible assets like goodwill. We obviously hung a bunch of goodwill on the balance sheet as part of the Walden acquisition…"*[40]

"Hung a bunch of goodwill" is certainly an odd rhetorical choice, implying a certain casualness and imprecision that one would not expect in the same sentence as the balance sheet's largest figure. The goodwill and intangible assets balance comprise 63% of ATGE's total reported assets. Removing Walden's contribution to these intangible assets and goodwill results in negative equity. Putting that aside, the statement implies that a major driver of the score change was the valuation of the Walden deal.

It is easy to rationalize ED's stance. Goodwill will not pay rent, teachers, or cover the other costs of earning a degree. When for-profit universities have faced closure or bankruptcy in the past, goodwill certainly meant pretty much zero to students left indebted and degreeless. So, we hope that you will accept that intangible assets—which may factor into your valuation of securities—contribute little to the operational health of a university operator.

ATGE completed the purchase of Walden for $1.48 billion and booked $651 million to goodwill and $833 million to intangible assets, representing nearly the entire purchase price instead of actual assets. Of this intangible asset balance, $495 million is supposedly related to Walden's Title IV eligibility and accreditation. The proportion of intangible assets attributed to this factor is significantly higher than ATGE's other schools.

[39] Federal Student Aid, Heightened Cash Monitoring. December 1, 2023 Report. https://studentaid.gov/data-center/school/hcm

[40] ATGE's Q1 2024 Earnings Call on October 26, 2023. Comments from CEO Stephen Beard. https://blinks.bloomberg.com/screens/DOCV%20TRAN%20RT000000003024484297

Indefinite-lived intangible assets consisted of the following (in thousands):

	September 30, 2023	June 30, 2023
Walden trade name	$ 119,560	$ 119,560
AUC trade name	17,100	17,100
RUSM trade name	3,500	3,500
RUSVM trade name	1,600	1,600
Chamberlain Title IV eligibility and accreditations	1,200	1,200
Walden Title IV eligibility and accreditations	495,800	495,800
AUC Title IV eligibility and accreditations	100,000	100,000
RUSM Title IV eligibility and accreditations	11,600	11,600
RUSVM Title IV eligibility and accreditations	2,500	2,500
Total	$ 752,860	$ 752,860

Figure 6. ATGE's Indefinite-lived intangible assets as of September 30, 2023[41]

As of May 31st, 2023, ATGE performed qualitative assessments for all of ATGE's schools, except Walden, for their annual impairment test. Instead, ATGE performed a quantitative assessment for Walden with their own discretionary assumptions on growth and discount rates. Models can be very subjective, and we have often seen that they can be updated to fit the desired result of a company's management team. In this case, ATGE concluded that Walden's value exceeded its carrying value by 10% and no impairment was needed. This conclusion does not sit well with us and it is why we make the case to ATGE's auditors as well, on why impairment is necessary.

On the matter of Walden's valuations, considering the problematic goodwill and intangibles, we also sought opinions from former ATGE executives who had been at the company at the time of the Walden deal or the discussions that led to the eventual acquisition. When asked if it would be simple to sell Walden, a former corporate finance executive of ATGE stated,

> *"No... to sell it, you'd have to get investors to buy the company or you'd have to give it to a PE firm and most likely they'll take DeVry as an example... I'll take on the business but indemnify me... maybe not a dollar... but deminimis value..."*[42]

Echoing sentiment, when a former executive was asked point blank if ATGE could sell Walden today for more than they paid for it, they said,

> *"No, not at all. Not at all... It will be fully discounted."*[43]

[41] ATGE SEC 10-Q, for the period ending September 30, 2023. https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023016860/atge-20230930x10q.htm

[42] Former ATGE Executive conversation conducted on January 16, 2024.

[43] Conversation with a former ATGE executive conducted on January 15, 2024.

ATGE's collateral burden is currently at $349.5 million as of September 30, 2023, [44] up from $192.1 million in June 2023,[45] and $160 million in March 2023.[46] Prior to the Walden acquisition, ATGE's collateral burden was only $77.3 million, $68.4 million of which was related to DeVry, a requirement for ATGE to hold through December 2021.[47] This number is likely to only increase: the collateral amount is partly a function of total Title IV funds disbursed, so the more Title IV funds, the bigger the letter of credit. Further, it is really at ED's discretion, and if ED is worried about too much taxpayer monies being lost to Walden, they can always increase the requirements or place additional restrictions. Generally, for schools deemed not responsible, the ED assigns letters of credit for at least 10% of Title IV disbursements. In ATGE's case, the ED is requiring roughly 20% of their Title IV receipts. This suggests that ED is already concerned.[48]

We wish we could be a fly on the wall for the discussions between ATGE and ED, but we are confident that ED will not be receptive to these arguments about the value of intangible assets *especially* when ATGE's own former executives fail to see the value. The reader should also recall that it appears that ED launched its investigation into Walden subsequent to the score change and approximately a month after ATGE executives talked to investors about hanging up a bunch of goodwill.

ATGE could resolve the question of financial responsibility by providing at least 50% in credit guarantee (about $750 million), but it seems unlikely that they can afford to do so, considering their liquidity from their cash balance and available revolving credit line was only $428.3 million as of September 30, 2023[49] … simply put, if they could, they would. As a Walden divestiture at a price higher than what ATGE paid for it seems just about impossible, in our opinion, we see topline growth for ATGE effectively capped out here and believe a company-wide restructuring, and selective closures, would be the only sustainable solution.

III. Enrollments: Prevailing Trends in Higher Education of no Help

In our opinion, it is apparent from ATGE's current conundrum of balancing Title IV disbursements with demonstrating financial responsibility to ED, that enrollment growth may be less of a priority over simply maintaining a status quo. That said, enrollments are a commonsense metric analysts use to assess the

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[44] ATGE SEC 10-Q, for the period ending September 30, 2023.
https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023016860/atge-20230930x10q.htm
[45] ATGE SEC 10-K, for the period ending June 30, 2023.
https://www.sec.gov/ix?doc=/Archives/edgar/data/730464/000155837023014509/atge-20230630x10k.htm
[46] ATGE SEC 10-Q, for the period ending March 30, 2023.
https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023007668/atge-20230331x10q.htm
[47] ATGE SEC 10-K, for the period ending June 30, 2021.
https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837021011957/atge-20210630x10k.htm
[48] ATGE's Q1 2024 Earnings Call on October 26, 2023. Comments from CEO Stephen Beard.
https://blinks.bloomberg.com/screens/DOCV%20TRAN%20RT000000003024484297
[49] ATGE SEC 10-Q, for the period ending September 30, 2023.
https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023016860/atge-20230930x10q.htm

health of a university operator, especially as we navigate elevated rates, a student debt crisis, and continued headline pressure on for-profits.

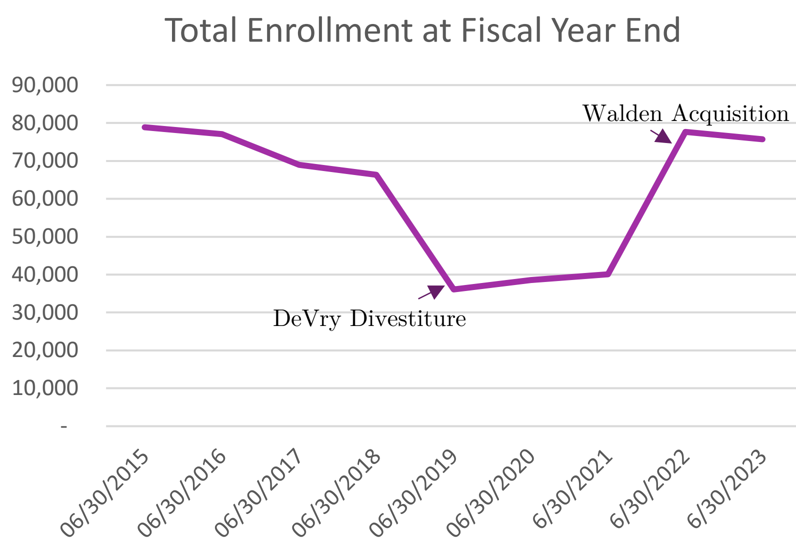


Figure 7. Enrollments across entire Adtalem portfolio.

As the reader can see, "DeVry-sized crater" was no exaggeration. And it would seem safe to assume that this would not have been easily remedied by growth and investment in the other ATGE properties. If we exclude Walden and DeVry from the enrollment figures, what we see is that enrollments across ATGE have plateaued since the 2015-2016 period, though the stock is up over 200% over that time. Let us try to unpack both the weakness over that period, the stagnation thereafter, and the apparent divergence between enrollment (a proxy for ATGE's topline) and the multiple investors are willing to pay for ATGE stock.

Robert Shireman, a longtime student advocate, wrote about the cyclicality of regulations governing for-profit universities. He writes,

> *"Every decade or two since WWII, lawmakers have loosened oversight of federal aid to career colleges run by for-profit companies only to be disappointed by rampant abuses. The scandals prompt regulators to clamp down, only to later be convinced by industry executives that the schools have cleaned up their act."*[50]

Shireman is also clear in his historical review and analysis: the tightening and loosening of regulations on these for-profits has nary to do with political party.

[50] "The For-Profit College Story: Scandal, Regulate, Forget, Repeat" The Century Foundation. January 24, 2017. https://tcf.org/content/report/profit-college-story-scandal-regulate-forget-repeat/

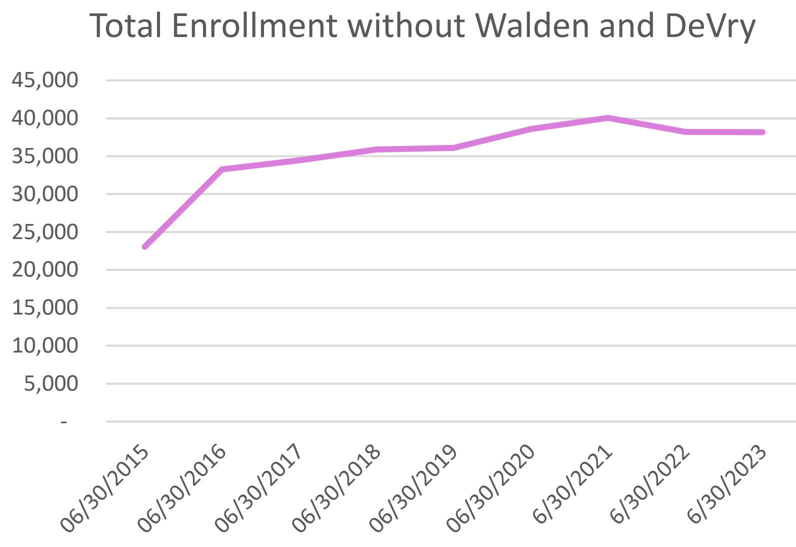


Figure 8. Enrollments without DeVry or Walden.

The reality for these schools is that if there are investigations, or highly publicized lawsuits and campaigns around questions of consumer abuse, politicians are forced to act in public interest. There is a myth that administrations with a perceived "pro-business" stance will unconditionally create boomtime conditions for these companies. History shows otherwise. Betsy DeVos, once named the Queen of Student Debt,[51] and her reign over ED during the Trump administration saw an almost immediate rollback of the Obama-era rules and regulations enacted following major school closures and consumer scandals. Again putting aside the impact of DeVry and Walden, the numbers do not lie: though enrollments stabilized post-Obama, there was no dramatic growth under Trump and DeVos.

The lagging effect of national scandals associated with for-profits will affect student behavior and decision-making; the students are not looking to who is running ED to determine whether or not they attend a for-profit university. For investors and for the company itself, the idea that political regime change could prompt vast generation of wealth for shareholders, unburdened by those pesky issues of disclosure and Title IV participation restrictions, makes for a cute narrative. So, if enrollment data is not convincing enough, let us also consider earnings per share over the various presidential administrations.

[51] "Betsy DeVos, The Queen of Debt" Forbes. August 30 2018. https://www.forbes.com/sites/dereknewton/2018/08/30/betsy-devos-the-queen-of-debt/?sh=795752ae39d6

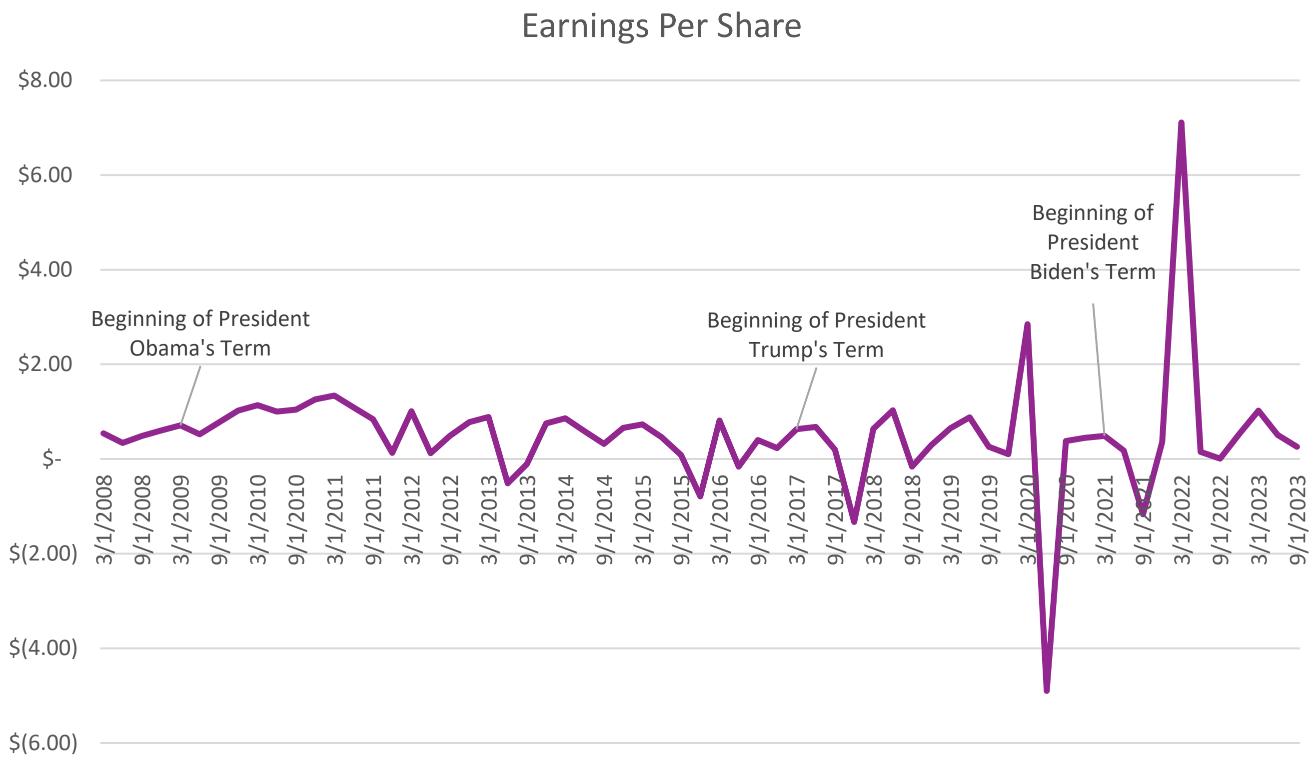


Figure 9. Earnings per share from 2008 through January 2024. Data retrieved from Bloomberg LP.

Earnings were generally stronger under Democratic administrations, so the idea that a second Trump presidency would meaningfully improve ATGE fundamentals does not seem substantive. While we accept that there is *some* political sensitivity in the sector, we do not believe this warrants the multiple investors seem to reward it.

It is our belief that for-profit schools will fundamentally underperform as prospective students grow cautious and ultimately student behavior and trends in higher education will have a far more lasting impact on valuation considerations than politics.

The COVID-19 pandemic demonstrated how critical it is for the country to have a growing base of aspiring medical professionals. ATGE itself had long extolled the virtues of its healthcare programs, even, though perhaps disingenuously, using its healthcare focus as a justification for the Walden acquisition. All this considered, one might expect that ATGE's offshore medical and veterinary schools would see steady growth; apart from the demand for doctors, the competitiveness of medical school admissions with the tens of thousands of prospective students and the nearly million applications annually[52] have made offshore schooling a still attractive, though costly, option.

[52] "Medical School Acceptance Rates" Med School Insiders. May 3, 2023. https://medschoolinsiders.com/pre-med/medical-school-acceptance-rates/

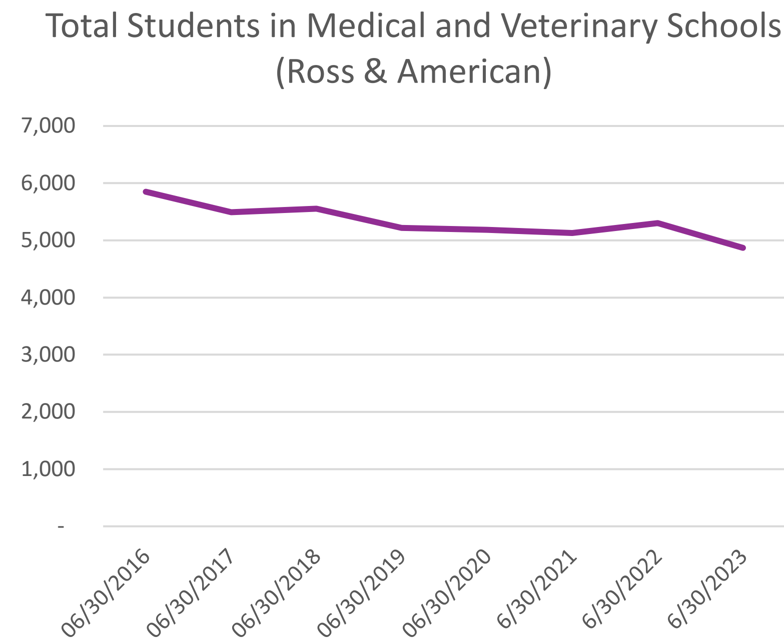


Figure 10. RUSM, RUSVM, and AUC enrollment.

And yet? Enrollments for MD and DVM programs across ATGE are in steady decline. According to a former ATGE executive,

> *"A yellow flag already being raised. I think what's happening is more offers for schools in the US, plus the DO schools just popping up everywhere in the country... decision process is US first, then international, regardless if it's MD or DO."*[53]

No amount of regulation or deregulation can really change the course of structural trends and to those shareholders who decry accountability of for-profits as "anti-free market," it is the free market and the availability of superior options which have driven students from the ATGE network.

IV. Gainful Employment: Apart from tremendous debt, is much else gained?

A former regulatory affairs executive at ATGE agrees: the gainful employment rule is an existential risk to the for-profit university sector.[54]

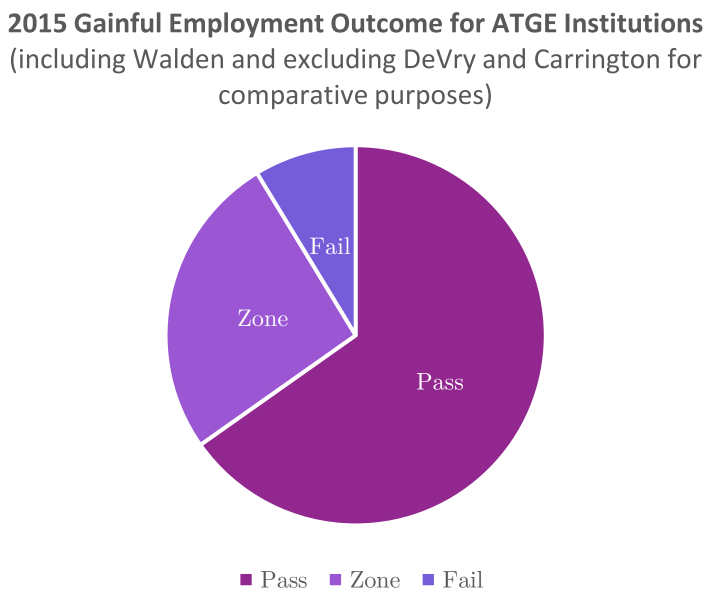
All the rule seeks to do is provide disclosure on whether obtaining a degree in a specific program from a specific school is worthy of the student's and the government's time and money. The rule contains two metrics. One is whether at least half of the graduates have higher earnings than a typical high school graduate in their state who never enrolled in postsecondary education, known as an earnings premium. The second metric is how much debt students take on relative to how much income they go on to earn.

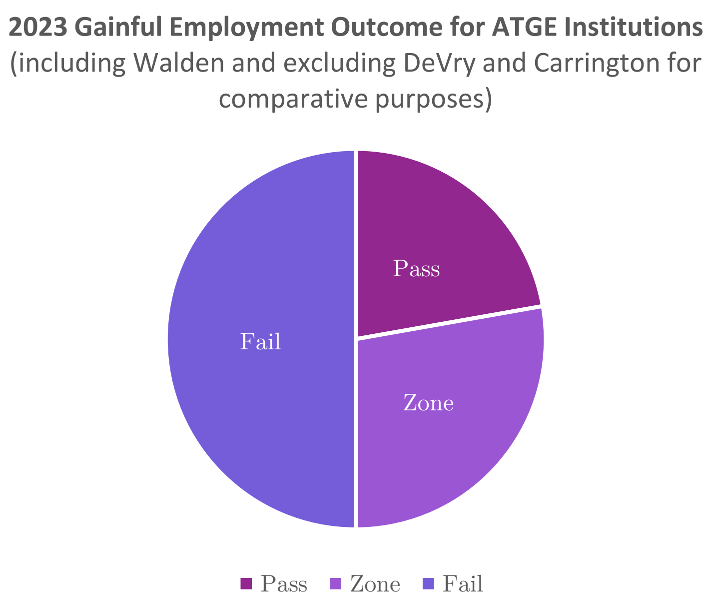
[53] Former ATGE executive conversation on January 15, 2024.

[54] Former ATGE executive conversation on January 17, 2024.

If we want to foster financial literacy and responsible spending among our nation's next generation, then why should we not provide these young people with the resources and data by which they can make those smart choices? Higher education will likely be one of the largest financial commitments these students take on, we should ensure that they are aware of what they are committing to.

How does this simple test pose an existential risk?





Figures 11 and 12. Gainful Employment Outcomes for 2015 and estimated for 2023. [55,56]

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[55] Federal Student Aid, Gainful Employment. Department of Education. https://studentaid.gov/data-center/school/ge

[56] Monthly loan payments and monthly earnings taken by each program from the ED's College Scorecard information found at https://collegescorecard.ed.gov/.

We can answer pretty simply—failing the gainful employment test on either metric, in either two consecutive years or two times in three consecutive years, will result in the loss of Title IV funding eligibility.[57] And the problem with gainful employment is that, especially with the long completion times of graduate programs like ATGE specializes in, it is very difficult to improve metrics so quickly, outside of reducing the cost of programs the students pay, which is an immediate hit to revenues.

Though the idea of "gainful employment" was well-established under the original Higher Education Act passed in 1965, in the 21st century with the expansive financial interests in the sector, lobbying firms representing for-profit universities attempted to have gainful employment rules thrown out since the rule was proposed and ultimately enacted under Obama in 2011.[58] Then, once DeVos was installed at ED under Trump, and though the rule remained law, it was never enforced and no programs lost eligibility. The Trump ED rescinded the rule by June 2019 and the repeal became effective in July 2020.[59] The Biden ED brought the rule back and it will go into effect on July 1st, 2024.[60]

In the last near 10 years of this bureaucratic tug-of-war, the only party to lose out are the students who entered these programs that would've long been disqualified from receiving federal student aid. Those students were promised by our lawmakers the right to clear disclosure on how their chosen degree programs would improve their economic prospects and ensure their ability to repay their loans.

Across ATGE programs, we suspect that the reinstatement of the gainful employment, which considers debt-to-earnings as a standalone metric, will have severe negative repercussions across ATGE. If they fail gainful employment in 2024-2025, they must notify all students. If they fail again in 2025-2026, then they will lose Title IV access for the following year.

As of 2023 data, we estimate that at minimum, RUSVM and 50% of degree programs at Walden, will fail gainful employment.[61] If this failure does indeed materialize, then we estimate that the Walden failures would result in a 25% revenue hit in FY 2027. A potential RUSVM failure, could result in a 6.7% revenue effect in FY 2027, but also the closure of the school.

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[57] "Biden-Harris Administration Announces Landmark Final Rules to Protect Consumers from Unaffordable Student Debt and Increase Transparency," U.S. Department of Education. September 27, 2023. https://www.ed.gov/news/press-releases/biden-harris-administration-announces-landmark-final-rules-protect-consumers-unaffordable-student-debt-and-increase-transparency

[58] "Program Integrity: Gainful Employment-Debt Measures," Federal Register. Published June 13, 2011. https://www.federalregister.gov/documents/2011/06/13/2011-13905/program-integrity-gainful-employment-debt-measures

[59] Weiss, Madison. "The Tortured Path of the Gainful Employment Rule," Cap20. May 17, 2023. https://www.americanprogress.org/article/the-tortured-path-of-the-gainful-employment-rule/

[60] "Biden-Harris Administration Announces Landmark Final Rules to Protect Consumers from Unaffordable Student Debt and Increase Transparency," U.S. Department of Education. September 27, 2023. https://www.ed.gov/news/press-releases/biden-harris-administration-announces-landmark-final-rules-protect-consumers-unaffordable-student-debt-and-increase-transparency

[61] Monthly loan payments and monthly earnings taken by each program from the ED's College Scorecard information found at https://collegescorecard.ed.gov/.

There is also a likely cascade of events that would follow from these failures: for one, we expect ATGE would need to write-down goodwill and their indefinite intangibles related to Walden by at least 50%. Of the $1.27 billion in goodwill and indefinite intangibles for Walden, $495.8 million is related to Walden's Title IV eligibility and its accreditation. While this would result in an earnings loss in FY 2027, it further complicates issues with the ED. The ED does not consider goodwill and intangibles in its asset calculations, but impairments of these are considered operating expenses when ED calculates its composite score.[62] As ATGE's composite score is already approaching negative territory, an even lower score would require further collateral—which may become difficult due to credit market conditions—or delayed funding, which would hurt working capital across all ATGE schools immediately.

GAINFUL EMPLOYMENT DATA - ESTIMATED FROM DOE COLLEGE SCORECARD INFORMATION AS REPORTED BY MONTHLY EARNINGS AND MONTHLY DEBT IN 2023				
https://collegescorecard.ed.gov/				
Data was last updated by the ED on October 10, 2023 - self-reported by institutions - data through 2019-2020				
*No data available for foreign schools				
Institution Name	***CIP Name***	***Credential Level***	***Reported Debt-to-Earnings Pass/Fail/ Zone in 2015***	***Estimated Debt-to-Earnings Pass/Fail/ Zone in 2023***
AMERICAN UNIVERSITY OF THE CARIBBEAN	MEDICINE.	07 - FIRST PROFESSIONAL DEGREE	PASS	
CHAMBERLAIN COLLEGE OF NURSING	REGISTERED NURSING/REGISTERED NURSE.	02 - ASSOCIATES DEGREE	ZONE	
CHAMBERLAIN COLLEGE OF NURSING	REGISTERED NURSING/REGISTERED NURSE.	03 - BACHELORS DEGREE	PASS	PASS
CHAMBERLAIN COLLEGE OF NURSING	REGISTERED NURSING/REGISTERED NURSE.	05 - MASTERS DEGREE	PASS	PASS
CHAMBERLAIN COLLEGE OF NURSING	REGISTERED NURSING/REGISTERED NURSE.	06 - DOCTORAL DEGREE		PASS
ROSS UNIVERSITY SCHOOL OF VETERINARY MEDICINE	VETERINARY MEDICINE.	07 - FIRST PROFESSIONAL DEGREE	FAIL	
ROSS UNIVERSITY, SCHOOL OF MEDICINE	MEDICINE.	07 - FIRST PROFESSIONAL DEGREE	PASS	
WALDEN UNIVERSITY	EDUCATION, GENERAL.	05 - MASTERS DEGREE	PASS	PASS
WALDEN UNIVERSITY	EDUCATION, GENERAL.	06 - DOCTORAL DEGREE	ZONE	FAIL
WALDEN UNIVERSITY	CURRICULUM AND INSTRUCTION.	05 - MASTERS DEGREE	PASS	ZONE
WALDEN UNIVERSITY	EARLY CHILDHOOD EDUCATION AND TEACHING.	05 - MASTERS DEGREE	PASS	
WALDEN UNIVERSITY	HUMAN DEVELOPMENT AND FAMILY STUDIES, GENERAL.	03 - BACHELORS DEGREE	FAIL	FAIL
WALDEN UNIVERSITY	PSYCHOLOGY, GENERAL.	03 - BACHELORS DEGREE	ZONE	ZONE
WALDEN UNIVERSITY	PSYCHOLOGY, GENERAL.	05 - MASTERS DEGREE	PASS	ZONE
WALDEN UNIVERSITY	PSYCHOLOGY, GENERAL.	06 - DOCTORAL DEGREE	FAIL	FAIL
WALDEN UNIVERSITY	FORENSIC PSYCHOLOGY.	05 - MASTERS DEGREE	PASS	
WALDEN UNIVERSITY	CRIMINAL JUSTICE/LAW ENFORCEMENT ADMINISTRATION.	03 - BACHELORS DEGREE	ZONE	FAIL
WALDEN UNIVERSITY	PUBLIC ADMINISTRATION.	05 - MASTERS DEGREE	PASS	FAIL
WALDEN UNIVERSITY	PUBLIC ADMINISTRATION.	06 - DOCTORAL DEGREE	ZONE	FAIL
WALDEN UNIVERSITY	HEALTH/HEALTH CARE ADMINISTRATION/MANAGEMENT.	05 - MASTERS DEGREE	PASS	ZONE
WALDEN UNIVERSITY	MENTAL HEALTH COUNSELING/COUNSELOR.	07 - FIRST PROFESSIONAL DEGREE	ZONE	
WALDEN UNIVERSITY	PUBLIC HEALTH, GENERAL.	05 - MASTERS DEGREE	PASS	FAIL
WALDEN UNIVERSITY	PUBLIC HEALTH, GENERAL.	06 - DOCTORAL DEGREE	PASS	FAIL
WALDEN UNIVERSITY	REGISTERED NURSING/REGISTERED NURSE.	03 - BACHELORS DEGREE	PASS	PASS
WALDEN UNIVERSITY	REGISTERED NURSING/REGISTERED NURSE.	05 - MASTERS DEGREE	PASS	PASS
WALDEN UNIVERSITY	BUSINESS ADMINISTRATION AND MANAGEMENT, GENERAL.	03 - BACHELORS DEGREE	PASS	PASS
WALDEN UNIVERSITY	BUSINESS ADMINISTRATION AND MANAGEMENT, GENERAL.	05 - MASTERS DEGREE	PASS	ZONE
WALDEN UNIVERSITY	BUSINESS ADMINISTRATION AND MANAGEMENT, GENERAL.	06 - DOCTORAL DEGREE	ZONE	FAIL
WALDEN UNIVERSITY	ORGANIZATIONAL LEADERSHIP.	05 - MASTERS DEGREE	PASS	
WALDEN UNIVERSITY	MANAGEMENT INFORMATION SYSTEMS, GENERAL.	05 - MASTERS DEGREE	PASS	

Figure 13. Gainful Employment Results across all ATGE programs for 2015 (actual) and estimated 2023. Data retrieved from the ED. [63,64]

On its Q1 2024 earnings call, ATGE's CEO does seem to express concerns about the effect of gainful employment across more than just the handful of Walden programs or RUSVM; in fact, he even names

[62] "Activity 5: Financial Ratios," Worksheet, Fiscal Management, Department of Education Federal Student Aid. https://fsapartners.ed.gov/sites/default/files/attachments/2021-02/Activity5FM2021.doc

[63] Federal Student Aid, Gainful Employment. Department of Education. https://studentaid.gov/data-center/school/ge

[64] Monthly loan payments and monthly earnings taken by each program from the ED's College Scorecard information found at https://collegescorecard.ed.gov/.

Chamberlain, perhaps the least problematic school within the ATGE portfolio. He does not express confidence that the schools would pass today, but rather indicates that the company may have "opportunities to make adjustments to ensure that programs clear the hurdle."[65] We contend that the only adjustment ATGE can make is to reduce the cost of the programs; ATGE cannot control the job market.

The rule and the calculations behind the rule, are fairly simple, and any reasonable investor will likely agree, that a ratio like debt-to-earnings, is not an unfair method to assess a student's gainful employment. This is really no different than the leverage ratios which we use to value corporates, like ATGE. Any attempts to massage simple ratios are in our view, more often than not, an admission that the financial health is not really as the masseuse may wish for us to believe.

Beyond the lifelong burden imposed upon students who attended programs that fail the test, this also means that some, if not many, of those students will never be able to pay their loans off in full. That becomes a direct loss for you and me. We should not prioritize protecting sometimes predatory, low-quality corporates over protecting taxpayer dollars. A respect for the gainful employment rule and continued support for it will mean less of our money lost to unscrupulous operators. These regulations do not *outlaw* the existence of the programs themselves, but rather, those programs must instead rely on private funds for their operations. Student advocates and free-market champions all win.

V. Accreditations and Investigations: Yet more Existential Threats

All former ATGE sources interviewed confirmed that the loss of accreditation for any of ATGE's schools would be an immediate and massive hit to the company's earnings. Unlike various tests regulators impose which may offer a few years cushion prior to the loss of Title IV eligibility, accreditation is one of the few true and unavoidable requirements; if you are accredited, federal dollars will continue to be disbursed to you, but the second you lose accreditation, the federal tap shuts off.[66]

It is our understanding that within ATGE, the regulatory affairs division has two main teams—one focused on ED and federal regulatory matters, and another focused exclusively on accreditation. A former executive confirms that the company viewed the federal government and the accreditors as equally important.[67]

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[65] ATGE's Q1 2024 Earnings Call on October 26, 2023. Comments from CEO Stephen Beard. https://blinks.bloomberg.com/screens/DOCV%20TRAN%20RT000000003024484297

[66] Part 600.4 - Institution of Higher Education. Student Assistance General Provisions of the Higher Education Act of 1965, as amended on January 8, 2024 - https://www.ecfr.gov/current/title-34/subtitle-B/chapter-VI/part-600

[67] Conversation with former ATGE executive, January 17th, 2024.

Ross University School of Medicine (RUSM) has not completed an accreditation process since 2014, with the associated site visit having occurred in January 2014.[68] And even that accreditation, was conditional. It has been over a decade.

RUSM's accreditor is CAAM-HP. CAAM-HP is the only accreditor recognized in Barbados by the World Federation for Medical Education (WFME) and the National Committee on Foreign Medical Education and Accreditation (NCFMEA).[69] For a foreign medical school to receive Title IV funding, and for the students of those schools to be able to practice medicine in the US, the school must be accredited by such a recognized accreditor.[70]

It is extremely unusual for a decade to have passed between accreditation exercises. CAAM-HP itself notes that "the case…is a unique one."[71] The first instance where a full review was due, ATGE had to relocate RUSM from Dominica to Barbados following the devastation of Hurricane Maria; in that interim period, there was no real site, rather medical students were forced onto a cruise ship for their studies.[72] Then, in 2020, RUSM again was able to evade a full accreditation study due to the pandemic and the travel restrictions imposed. Surely, acts of god cannot stand in the way of this accreditation yet a third time.

In 2021, CAAM-HP "expressed deep concern at the lengthy period of time since the School had its accreditation status reevaluated."[73]

Interestingly, in 2021, RUSM's closest peer in the Caribbean withdrew its accreditation from CAAM-HP. This was following an update from the accreditor, putting St. George's University of Medicine on probation. Rather than appeal the decision, St. George's withdrew.[74] It was broadly speculated that St. George's would have failed and lost its accreditation.[75] We can further speculate then, that rather than take the reputational hit of such an event, St. George's withdrew and decided to take its chances on

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68 "Ross University School of Medicine Accreditation with Conditions extended," CAAM-HP. https://caam-hp.org/wp-content/uploads/2022/08/Ross-University-School-of-Medicine.pdf

69 National Committee on Foreign Medical Education and Accreditation (NCFMEA), Department of Education. Comparability Decisions. https://sites.ed.gov/ncfmea/comparability-decisions/

70 Federal Student Aid, 2022-2023 Foreign Schools Handbook. Chapter 3, Foreign Graduate Medical Schools. Department of Education. https://fsapartners.ed.gov/knowledge-center/fsa-handbook/foreign-schools-handbook/2022-2023/ch3-foreign-graduate-medical-schools

71 "Ross University School of Medicine Accreditation with Conditions extended," CAAM-HP. https://caam-hp.org/wp-content/uploads/2022/08/Ross-University-School-of-Medicine.pdf

72 "Medical Student Sailing Toward Degree after Hurricane Maria Destroyed his University in Dominica." ABC News. December 1, 2017. https://abcnews.go.com/International/medical-student-sailing-degree-hurricane-maria-destroyed-university/story?id=51504714

73 "Ross University School of Medicine Accreditation with Conditions extended," CAAM-HP. https://caam-hp.org/wp-content/uploads/2022/08/Ross-University-School-of-Medicine.pdf

74 "St George's University School of Medicine, Grenada, Voluntarily Withdrawn, January 2021. https://caam-hp.org/wp-content/uploads/2022/08/St-Georges-University-School-of-Medicine-Grenada.pdf

75 FAQs About SGU School of Medicine Accreditation, July 5, 2023. https://www.sgu.edu/blog/medical/faqs-about-sgu-accreditation/

another accreditor. St. George's other accreditor was not certified and needed to apply for recognition by the WFME. This was an incredibly risky maneuver because if WFME failed to certify, then St. George's students would be left without funding or the ability to take their US medical exams. It is a binary outcome. Fortunately, WFME did recognize the new accreditor and the worst was averted.[76] RUSM does not have an alternative accreditor.

CAAM-HP was scheduled to visit RUSM for its on-site inspection in October 2022.[77] The fact that CAAM-HP has not provided any updates is unusual; other schools which were inspected at the same time received their renewed accreditations as long as a year ago. We have made about a dozen attempts to contact CAAM-HP both over the phone and over email over the past few months; we have not even been able to get through to a person, nor have we received any response to our countless emails and voicemails.

Students deserve to have an update on the status of the renewal. Those students who are considering RUSM run the risk of entering a school expecting a clear path to a medical degree accepted in the US, but face the clear risk that this path will either be obstructed, or extended until the accreditation issue can be resolved.

Investors also deserve clarification from ATGE, given the startling potential for losses.

RUSM contributed an estimated 18.9% of ATGE's revenues in FY 2023, or nearly $300 million.[78] It also holds $195.19 million in goodwill and intangibles.[79] Profitability would likely take a disproportionate hit due to the hefty price tag of a degree there. An accreditation loss would also be in direct violation of RUSM's PPA. This could ultimately mean school closure. This could also surely create reputational damage at AUC as well, though it remains accredited.

It is also important to mention that both of ATGE's Caribbean medical schools are accessing Title IV funding through a loophole in the Higher Education Act of 1965 for foreign medical schools. As the Government Accountability Office highlighted in 2010, foreign medical schools with access to Title IV funding must meet a pass rate of 75% for the step 1 of the US medical licensing exam (USMLE-1) and must have at least 60% of their student body be non-US citizens.[80] AUC's pass rate for the most recently

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[76] "About Us," The Grenada Medical and Dental Council (GMDC). https://gmdc.gd/about-us/
[77] "Site Visits," CAAM-HP. https://caam-hp.org/upcoming-site-visits/
[78] This is estimated from enrollment figures and the approximate cost as disclosed by ATGE. ATGE does not disclose revenue and other financial metrics for each medical and veterinary school.
[79] ATGE SEC 10-Q, for the period ending September 30, 2023.
https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023016860/atge-20230930x10q.htm
[80] GAO Report to Congressional Committees. Foreign Medical Schools, Education Should Improve Monitoring of Schools that Participate in the Federal Student Loan Program." June 2010. https://www.gao.gov/assets/gao-10-412.pdf

reported period was just 76.5%, barely above the 75% passing requirement.[81] RUSM's was 81.2%.[82] Both of these institutions are largely populated by US and Canadian citizens and would not pass the 60% international enrollment requirement. Only five schools were exempt from these requirements because they were in existence before 1992, when the rule was written. RUSM and AUC are two of the five exempt institutions, and two of the three Caribbean medical schools.[83] The three Caribbean medical schools, including RUSM and AUC, accounted for nearly three-fourths of the federal student aid to going to all foreign medical schools.[84] Their exemption has been called out by Senator Dick Durbin of Illinois since 2015.[85] He has reintroduced a bipartisan bill to eliminate this loophole again in 2017 and 2022.[86,87] Although the imminent threat of its removal is not in the near-term, the existence of a longer-term threat is present.

CAAM-HP is not the only accreditor critical to ATGE that may create a negative surprise in the near-term. The Higher Learning Commission (HLC) serves as the accreditor for both Walden and Chamberlain. It was HLC that provided disclosure that Walden was under investigation by ED since November 27th, 2023. HLC clarifies that the investigation is related specifically to Walden's doctoral programs.[88]

Typically, and as confirmed by a former regulatory affairs executive at ATGE, when there is a governmental investigation, the accreditor will generally launch its own, independent investigation.[89] According to HLC's release, ATGE will have to file its first report with HLC on this investigation on March 26th, 2024.

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[81] American University of the Caribbean, Institution Information, Department of Education. https://studentaid.gov/understand-aid/types/international/american-university-caribbean

[82] Ross University School of Medicine, Institution Information, Department of Education. https://studentaid.gov/understand-aid/types/international/ross-university-school-medicine

[83] GAO Report to Congressional Committees. Foreign Medical Schools, Education Should Improve Monitoring of Schools that Participate in the Federal Student Loan Program." June 2010. https://www.gao.gov/assets/gao-10-412.pdf

[84] "Durbin Introduces Legislation to Improve Accountability of Foreign Medical Schools Receiving Federal Student Aid," September 7, 2022. https://www.durbin.senate.gov/newsroom/press-releases/durbin-introduces-legislation-to-improve-accountability-of-foreign-medical-schools-receiving-federal-student-aid

[85] H.R. 8602. "Foreign Medical School Accountability Fairness Act of 2022." https://www.govinfo.gov/content/pkg/BILLS-117hr8602ih/pdf/BILLS-117hr8602ih.pdf

[86] "House, Senate Bills Address Foreign Medical School Access to Federal Student Loans," AAMC. April 7, 2017. https://www.aamc.org/advocacy-policy/washington-highlights/house-senate-bills-address-foreign-medical-school-access-federal-student-loans-0

[87] "Durbin Introduces Legislation to Improve accountability of Foreign Medical Schools Receiving Federal Student Aid," September 7, 2022. https://www.durbin.senate.gov/newsroom/press-releases/durbin-introduces-legislation-to-improve-accountability-of-foreign-medical-schools-receiving-federal-student-aid

[88] Higher Learning Commission, Public Disclosure, Walden University. Designation: Governmental Investigation. Updated November 29, 2023. https://www.hlcommission.org/download/_PublicDisclosureNotices/Updatd%20PDN%20Walden%20University%20-%20Governmental%20Investigation.pdf

[89] Conversation with former executive, January 17th, 2024.

Please recall that Walden's doctoral programs were among those that likely fail gainful employment. Some may argue that accreditors have too familiar a relationship with the institutions they are responsible for assessing. In fact, ED announced new proposals in January 2024 to limit executives and related parties of institutions from serving on their accreditors' and state approval boards.[90] Still, where there have been clear and widespread failings, accreditors have acted in the best interest of students. Regardless of the outcome of ED's own investigation, the accreditor has the power to independently impose greater institutional requirements upon Walden.

It is also important to consider the way governmental investigations themselves tend to progress. Where there may be a concern about representations to students, it is also likely that ED will notify FTC which will begin its own investigation. If such activity being investigated rises to the level of criminal fraud, the DOJ could coordinate with the other agencies. For example, in recent months, another for-profit operator, Grand Canyon University (LOPE) was first investigated and fined by ED. About a month after this, FTC filed a lawsuit against the school for the same reasons.[91]

Currently, investors in ATGE appear to be completely neglecting accreditation risks, and are not appropriately pricing federal investigative risks, especially as the current ED investigation has yet to be formally disclosed by ATGE in its financial releases. Ongoing investigations and accreditor grievances could create bad publicity, which may lead to program revocations, but will undoubtedly continue to weigh on student perceptions.

VI. Program Participation Agreements (PPA) and Zombie Schools

While new rules and surprise actions and investigations by the government and other relevant agencies all pose a risk to a school's Title IV eligibility, it is the PPA which grants, under law, the ability for ED to permit a for-profit school to receive Title IV funds at all, and dictate the conditions under which it does.[92]

[90] "Biden-Harris Administration Takes Next Steps on Rulemaking to Strengthen Institutional Quality and Program Integrity," Department of Education, January 2, 2024. https://www.ed.gov/news/press-releases/biden-harris-administration-takes-next-steps-rulemaking-strengthen-institutional-quality-and-program-integrity

[91] "FTC Sues Grand Canyon University for Deceptive Advertising and Illegal Telemarketing," Federal Trade Commission, December 27, 2023. https://www.ftc.gov/news-events/news/press-releases/2023/12/ftc-sues-grand-canyon-university-deceptive-advertising-illegal-telemarketing?utm_source=govdelivery

[92] Part 668.14 – Program Participation Agreement. Student Assistance General Provisions of the Higher Education Act of 1965, as amended on January 8, 2024 https://www.ecfr.gov/current/title-34/subtitle-B/chapter-VI/part-668#668.13

School	*Most recent Recertification*	*Expiration Date*	*Status*	*Explanation*
Chamberlain	Sep-20	31-Mar-24	Unrestricted	
Walden	17-Sep-21	Month-by-month	Temporary Provisional PPA	Financial responsibility, composite score below 1.5, and change in ownership
AUC	Jun-20	31-Dec-22	Provisional/Expired	Increased and/or repeated Title IV compliance audit findings
RUSM	Aug-21	31-Mar-23	Provisional/Expired	Increased and/or repeated Title IV compliance audit findings
RUSVM	Aug-21	30-Jun-23	Provisional/Expired	Increased and/or repeated Title IV compliance audit findings

Figure 14. ATGE Program Participation Agreement (PPA) status[93]

In conjunction with the Walden acquisition, ED issued a temporary provisional PPA. Under this contract, problematic schools like Walden can continue to receive funds, but only with the understanding they will fix the identified problems. This PPA gives ED full discretion to terminate federal funding immediately, at any time.

The fact that ED had launched its investigation into Walden while it already keeps Walden on an incredibly short leash with this temporary provisional PPA, is extremely telling. This may indicate that ED has been unsatisfied thus far with the reports ATGE has provided to ED regarding its compliance weaknesses.

By law, these provisional contracts have a statute of limitation of 3 years. After this, the school will need to be recertified. However, occasionally ED finds some schools too troubling to recertify, and keeps them on provisional status indefinitely. Advocates refer to these as "zombie schools."[94]

Both of ATGE's medical schools and their veterinary school are currently "zombies." According to ATGE, it submitted an application for recertification ahead of the expiry dates.[95] A former ATGE regulatory affairs executive also confirmed that the recertification process itself, is driven almost entirely by ED and it is not "collaborative," meaning ED dictates terms and companies have little choice but to accept.[96]

As RUSM is still on an expired PPA, it is also worth considering the impact of changes to the 90/10 rule. The 90/10 rule, imposed upon for-profit universities, simply states that at maximum, 90% of revenue can

[93] ATGE SEC 10-Q, for the period ending September 30, 2023.
https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023016860/atge-20230930x10q.htm

[94] Cao, Yan. "Predatory colleges think they are too flawed to fail. Biden's Department of Education should prove them wrong," The Century Foundation. September 9, 2021. https://tcf.org/content/commentary/predatory-colleges-think-flawed-fail-bidens-department-education-prove-wrong/

[95] ATGE SEC 10-Q, for the period ending September 30, 2023.
https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023014509/atge-20230630x10k.htm

[96] Conversation with former executive, January 17th, 2024.

be derived from federal sources.[97] Prior to this year, the 90/10 rule only applied to Title IV funds, but from this school year onwards, it will include all federal sources, such as military benefits. Further, from our interpretation of the rule, ATGE-funded scholarships and tuition discounts cannot be defined as non-federal revenue, and therefore are eliminated from the 10% non-federal revenue bucket. Also limiting the 10% non-federal revenue requirement is the fact that for ATGE institutional financial aid to students, only payments received by ATGE during a school year can be counted.[98] Before this year's rule changes, RUSM has been at 85% of Title IV funding and is the closest of all ATGE's schools to breaching the rule.[99]

Due to limited disclosure by ATGE, it is not immediately clear how they calculate their non-federal revenues. The company discloses that 25% of its revenue is from cash, employer-paid tuition, and scholarships. If today that 25% is substantially inclusive of ATGE-funded scholarships and discounts to tuition, then it is very possible that by FY 2026, RUSM could lose Title IV funding. From a conversation with a former corporate finance executive, it does seem that the level of tuition discounts are substantial.[100]

As the expiry of ATGE's PPAs coincide with these major rule changes, it is likely that ED will be considering the compliance with rules like 90/10. Coupled with existing investigations and a deteriorating financial picture, we believe ED will impose greater restrictions on funding access across the entire ATGE portfolio.

Additionally, up until July 2022, executives of for-profit colleges did not have to personally sign the PPAs, meaning that executives of these institutions could argue that they were not personally liable for school or ED losses.[101] Instead those losses fell on shareholders and taxpayers. However, as Senator Durbin and others have outlined in a letter to the Department of Education in November 2022, the Higher Education Act of 1965 authorizes the ED to recoup financial losses from individuals who exercise substantial control over institutions, regardless of whether their name is on the PPA or not.[102]

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[97] "Education Department Unveils Final Rules to Protect Veterans and Service Members, Improve College Access for Incarcerated Individuals and Improve Oversight When Colleges Change Owners," Department of Education. October 27, 2022. https://www.ed.gov/news/press-releases/education-department-unveils-final-rules-protect-veterans-and-service-members-improve-college-access-incarcerated-individuals-and-improve-oversight-when-colleges-change-owners

[98] Part 668.28 – Non-Federal Revenue. Student Assistance General Provisions, Title 34. Code of Federal Regulations. https://www.ecfr.gov/current/title-34/subtitle-B/chapter-VI/part-668/subpart-B/section-668.28

[99] ATGE SEC 10-K, for the period ending June 30, 2023. https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023014509/atge-20230630x10k.htm

[100] Conversation with former manager, January 16th, 2024.

[101] "(General-22-16) Updated Program Participation Agreement Signature Requirements for Entities Exercising Substantial Control Over Non-Public Institutions of Higher Education," Department of Education, Federal Student Aid. Posted March 23, 2022. https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2022-03-23/updated-program-participation-agreement-signature-requirements-entities-exercising-substantial-control-over-non-public-institutions-higher-education

[102] "Durbin, Warren Urge Department of Education to Hold Predatory For-Profit College Executives Accountable For Scamming Students," Dick Durbin, U.S. Senator Illinois, Newsroom. October 18, 2022.

Nevertheless, now that ATGE's CEO must sign the PPAs as of July 2022, we question if this rule change has impacted ATGE's desire to execute new PPAs, which affects ATGE's assured access to the vital Title IV funds.

VII. Anatomy of a College Collapse: Corinthian College

Corinthian Colleges, Inc., a former healthcare-focused for-profit operator, was founded in 1995 and publicly offered shares as COCO in 1999.[103] An acquisitive behemoth, it had bought 85 colleges and campuses across North America, and opened another 33 on its own. At its 2010 peak, Corinthian had 110,580 students enrolled across 118 schools, with a $1.8 billion topline.[104]

COCO was delisted on February 17th, 2015, 5 years after its peak enrollments.[105] The schools officially shut down in that April and the company entered bankruptcy in May 2015.[106] Dissecting the series of events that led to Corinthian's collapse will help us understand the drivers of school closure and what investors can look out for.

Even before it reached its peak, in 2004, Corinthian faced numerous class actions alleging material misrepresentation. That year, Corinthian formally met with California's Attorney General who launched a three-year investigation which culminated in a 2007 complaint and immediate settlement for deceptive advertising, inflation of employment statistics barring Corinthian from future deceptive marketing.[107] A qui tam lawsuit was filed by a former employee later that year, but the DOJ declined to intervene.[108]

The following year, Corinthian disclosed that ED issued a damning report, finding misrepresentations to students, breaches of fiduciary duty, intentional evasion of the 90/10 requirements, among other failures.[109] The following month, Steve Eisman of the "Big Short" fame, announced a short campaign against Corinthian and the for-profit university industry.[110] Later in 2010, Corinthian received

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https://www.durbin.senate.gov/newsroom/press-releases/durbin-warren-urge-department-of-education-to-hold-predatory-for-profit-college-executives-accountable-for-scamming-students

103 COCO SEC Form 8-K, dated February 4, 1999. https://www.sec.gov/Archives/edgar/data/1066134/0001017062-99-000392.txt

104 COCO SEC 10-K, for the period ending June 30, 2010. https://www.sec.gov/Archives/edgar/data/1066134/000119312510194326/d10k.htm

105 "Corinthian Colleges receives Delisting Notice from Nasdaq," February 11, 2015. https://www.globenewswire.com/en/news-release/2015/02/11/705580/14875/en/Corinthian-Colleges-Receives-Delisting-Notice-From-Nasdaq.html

106 Corinthian Colleges, Inc., et al. Distribution Trust Website. https://cases.omniagentsolutions.com/?clientId=2136#:~:text=and%20its%20affiliates.-,Corinthian%20Colleges%2C%20Inc.,Code%20on%20May%204%2C%202015.

107 "Corinthian Colleges," Senate Report. https://www.help.senate.gov/imo/media/for_profit_report/PartII/Corinthian.pdf?

108 COCO SEC 10-K, for the period ending June 30, 2010. https://www.sec.gov/Archives/edgar/data/1066134/000119312510194326/d10k.htm

109 COCO SEC Form 8-K, dated August 12, 2014. sec.gov/Archives/edgar/data/1066134/000110465914060150/a14-18886_18k.htm

110 Eisman, Steven and FrontPoint Partners. "For-Profit Education: Subprime goes to College," Ira Sohn Conference. May 26, 2010. https://fm.cnbc.com/applications/cnbc.com/resources/editorialfiles/2012/05/03/2226540_Steve-Eisman_2010.pdf

investigative demands, including subpoenas, from the state attorneys general of Florida, California, New York, Oregon, and Illinois. By December, Corinthian also received negative comments from one of its accreditors, forcing Corinthian to close some campuses.[111]

By August 2012, ED began restricting Corinthian's access to Title IV funds and in 2013, Vice President Harris, then CA attorney general, accused Corinthian of securities and consumer fraud, and won a $1.1 billion judgment three years later.[112,113]

Throughout 2014, ED sent Corinthian extensive document requests around placement results, attendance, and grade changes and placed Corinthian on Heightened Cash Monitoring. ED also imposed a 21-day delay on the drawdown of Title IV funds, after which Corinthian told the markets the delay would cause a significant shortfall in the company's operating cash flows. ED forced Corinthian to stop new enrollments immediately. The DOJ followed with an investigative demand as did the CFBP, that accused Corinthian of using illegal tactics to collect high interest on private loans.[114]

In the last 10-K ever filed by Corinthian, in 2013, they wrote that their ED composite scores were at 0.9 in 2011 and 1.5 in 2012; Corinthian did not have any letters of credit with ED.[115]

At no point did Corinthian provide explicit or even adequate warning to its shareholders that the risks from investigations and ED restrictions could ultimately lead to a liquidity crisis. In fact, the most vocal bull, a Credit Suisse analyst had exasperatedly cheered for Corinthian through every negative headline, going so far as to argue that many students did not even deserve a refund, after the closure. Unsurprisingly, that analyst also cheered on DeVry once the FTC lawsuit was announced, no matter if it was eventually divested for $1.[116,117]

The parallels between ATGE and Corinthian don't end there:

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[111] COCO SEC 10-K, for the period ending June 30, 2012. sec.gov/Archives/edgar/data/1066134/000104746912008511/a2210652z10-k.htm

[112] "Attorney General Kamala D. Harris Files Suit in Alleged For-Profit College Predatory Scheme," State of California, Department of Justice. October 10, 2013. https://oag.ca.gov/news/press-releases/attorney-general-kamala-d-harris-files-suit-alleged-profit-college-predatory

[113] "Attorney General Kamala D. Harris Obtains $1.1 Billion Judgment Against Predatory For-Profit School Operator," State of California, Department of Justice. March 23, 2016. https://oag.ca.gov/news/press-releases/attorney-general-kamala-d-harris-obtains-11-billion-judgment-against-predatory

[114] COCO SEC Form 8-K, dated June 19, 2014. sec.gov/Archives/edgar/data/1066134/000110465914046978/a14-15736_18k.htm

[115] COCO SEC 10-K, for the period ending June 30, 2013. https://www.sec.gov/Archives/edgar/data/1066134/000104746913008803/a2216385z10-k.htm

[116] "Credit Suisse Analyst who Touts DeVry Previously Touted Corinthian. Huffington Post. February 8, 2016. https://www.huffpost.com/entry/credit-suisse-analyst-who_b_9184516

[117] ATGE SEC 10-K, for the period ending June 30, 2018. https://www.sec.gov/Archives/edgar/data/730464/000114420418046216/tv500801_10k.htm

- Both faced investigations and settlements that related to *systemic* deceptive practices, not just at problematic schools;
- The qui tam lawsuits filed did not initially have DOJ intervention;[118]
- Disagreements with the ED arose on goodwill and intangibles;
- There was significant targeting, either directly or by design, of vulnerable and underrepresented populations.

You should understand by now that ultimately, a for-profit university's success or failure, hinges almost exclusively on their ability to access federal funds without restriction. With ATGE, ED has provided multiple indications of its intent to at least consider imposing more onerous restrictions; it has left all of ATGE schools, except Chamberlain, on provisional or expired status, which we see as a clear and unmistakable signal that ED is considering what further financial requirements may help ensure that what happened at Corinthian does not repeat itself at ATGE and <u>this tradeoff necessarily means that enrollment growth, profitability, and working capital may be limited</u>.

ATGE currently posts a letter of credit with ED representing nearly 20% of all the Title IV funds it receives.[119] At no point did ED impose such a hefty collateral requirement on Corinthian. Investors should consider then, that this dire opinion from ED—given the pattern of facts at Corinthian—warrants further valuation discount and projection beyond the bullish momentum factor of a stock that has been consistently supported by sizable stock repurchases.

VIII. Borrower Defense Program Empowers Students to Seek Remedy

The Corinthian example also provides us a good understanding of the borrower defense program, a way for students who attended schools that either shut down or engaged in deceptive practices, to obtain forgiveness of their loan balances.[120] Through this program, $5.8 billion in loans to former Corinthian students were forgiven.[121]

Through the borrower defense program, the government has also established a path by which to seek recoupment for those loans that are forgiven.[122] Recoupment becomes difficult though, for schools that

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[118] Sawyer v. Walden, Case 0:20-cv-00519-NEB-KMM, filed April 30, 2021.
https://s3.documentcloud.org/documents/20694716/justice-department-walden.pdf

[119] ATGE's Q1 2024 Earnings Call on October 26, 2023. Comments from CEO Stephen Beard.
https://blinks.bloomberg.com/screens/DOCV%20TRAN%20RT000000003024484297

[120] "Borrower Defense Loan Discharge," Department of Education, Federal Student Aid. https://studentaid.gov/manage-loans/forgiveness-cancellation/borrower-defense

[121] "Education Department Approves $5.8 Billion Group Discharge to Cancel all Remaining Loans for 560,000 Borrowers who Attended Corinthian," Department of Education. June 1, 2022.
https://www.sec.gov/Archives/edgar/data/1066134/000104746913008803/a2216385z10-k.htm

[122] Department of Education Letter to the U.S. House of Representatives Committee on Education and Labor, March 31, 2022.
https://storage.courtlistener.com/recap/gov.uscourts.ilnd.422323/gov.uscourts.ilnd.422323.1.1.pdf

have already filed for bankruptcy. Intuitively then, it would seem the government would be more inclined to aggressively pursue recoupment where schools remain open and operating.

In February 2022, the ED announced that it forgave $71.7 million in loans for students deceived by DeVry University. This represented just 1,800 former DeVry students, a small fraction of the students who attended the university when the deceptive advertising was made, from 2008 through 2015.[123] As part of the announcement, ED wrote, "These are the first approved borrower defense claims associated with a currently operating institution, and the Department will seek to recoup the cost of the discharges from DeVry. The Department anticipates that the number of approved claims related to DeVry will increase as it continues reviewing pending applications."[124]

ED has already begun recoupment. In August 2022, DeVry received its first recoupment notice for $23.6 million. In response, DeVry sued the ED.[125] As of the date of DeVry's amended complaint to ED, July 10, 2023, DeVry wrote that they received over 47,000 borrower defense applications from ED.[126] This falls on the shoulders of ATGE.

ATGE, as part of its DeVry divestiture, is responsible and liable for these recoupment costs, up to $340 million. We estimated that there remains anywhere between $170-227 million that is still possibly available under ATGE's indemnification responsibility related to DeVry.

Further, students sued ED due to failures to process borrower defense claims; this case, *Sweet v. Cardona*, was eventually settled and paves the path for $6 billion in loan forgiveness.[127] From data available in 2020, before the case was filed, there were 18,879 claims relating to ATGE, including over 1,000 claims related to ATGE's other institutions. All of ATGE's institutions are included on the class settlement list,

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[123] "FTC Enforcement Action Leads U.S. Dept. of Education to Forgive $71.7 million in Loans for Students Deceived by DeVry University," Federal Trade Commission. February 16, 2022. https://www.ftc.gov/news-events/news/press-releases/2022/02/ftc-enforcement-action-leads-us-dept-education-forgive-717-million-loans-students-deceived-devry

[124] "Education Department Approves $415 Million in Borrower Defense Claims Including for Former DeVry University Students," Department of Education. February 16, 2022. https://www.ed.gov/news/press-releases/education-department-approves-415-million-borrower-defense-claims-including-former-devry-university-students

[125] "Statement by DeVry University on Complaint Filed Against the Department of Education," DeVry Newsroom. https://www.devry.edu/newsroom/news/2022/statement-by-devry-against-the-doe.html

[126] DeVry v. U.S. Department of Education, Case: 1:22-cv-05549, U.S.D.C. Northern District of Illinois. First Amended Complaint for Declaratory and Injunctive Relief, filed July 10, 2023. https://storage.courtlistener.com/recap/gov.uscourts.ilnd.422323/gov.uscourts.ilnd.422323.42.0.pdf

[127] "Sweet v. Cardona Settlement," Department of Education, Federal Student Aid. https://studentaid.gov/announcements-events/sweet-settlement

not just DeVry.[128] However, the settlement also has provided means for post-class borrower defense filers to seek forgiveness.[129]

Given the open ED investigation into Walden, and ATGE's history of regulatory entanglements, we believe that it is possible for another enforcement action, which could again prompt another wave of borrower defense filers for Walden, potentially leading to liabilities similar to what has been accounted for with DeVry. In June 2023, ATGE at its investor day stated that "BDR is not an issue for the current portfolio in any material way… we don't have any meaningful BDR claims in the institutions that we take to market today."[130]

As we have seen, for-profit universities rarely tell us in clear or uncertain terms whether or not a risk *could* eventually become a material one. Nevertheless, investors must consider the future materiality of those risks as we have outlined above.

IX. Repurchases and Confident Redirections Obscure Reality

Ultimately, as we are short ATGE, we have high conviction that the stagnant fundamentals and the mispriced future risks pose a danger to ATGE's valuation; we are betting that share prices will fall from their current levels.

Over the last five years, ATGE has only generated annually about $100 million in earnings and $136 million in cash flow, but we feel the risks we have identified should put substantial downward pressure on these figures over the next five years. ATGE currently only has about $262 million in cash with what we estimate as $519.5 million in off-balance sheet liabilities including $349.5 million of surety bonds and letters of credit, and an estimated $170 million left on the DeVry indemnification cap. If we include these items with their existing debt, ATGE's leverage rises to 3.4X. Its credit agreement requires net leverage to be 3.25X or lower from March 31, 2024 and thereafter.[131]

If risks materialize in line with our expectations, impairments and additional collateral requirements will further worsen leverage. Its existing credit agreement states that letters of credit cannot exceed $400 million, but ATGE's current exposure is $166 million shy of that. So, if ED does decide to more firmly exert its enforcement authority, which we believe it may, then ATGE will likely need to refinance. Such

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[128] "Sweet v. Cardona Settlement Agreement Exhibit C," Case: 3:19-cv-03674-WHA, Filed August 9, 2022. https://studentaid.gov/sites/default/files/sweet-v-cardona-school-list.pdf

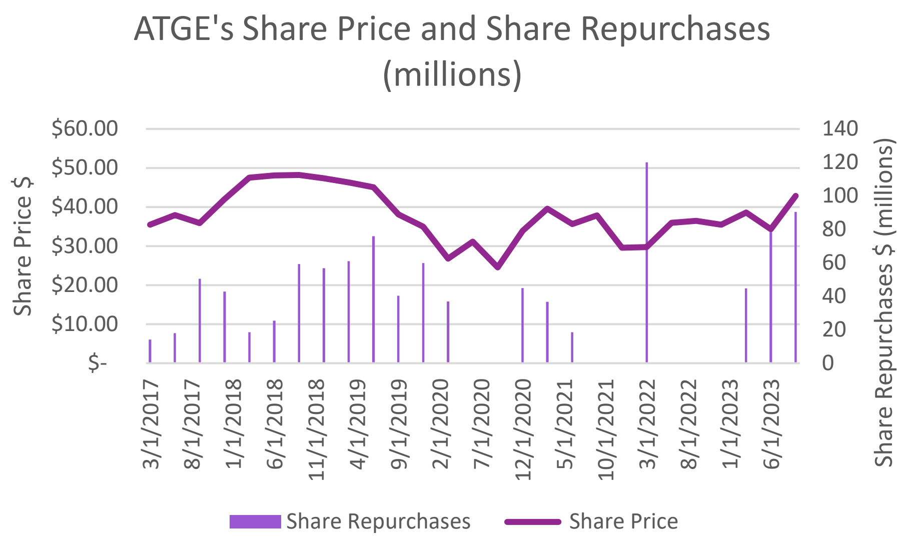
[129] "Supplement Complaint," Case 3:19-cv-03675-WHA, Document 193, Filed March 18, 2021. https://static1.squarespace.com/static/62d6e418e8d8517940207135/t/6305399dd9cd381787e0865d/1661286826036/Sweet+Supplemental+Complaint+Exhibits+_Part1.pdf

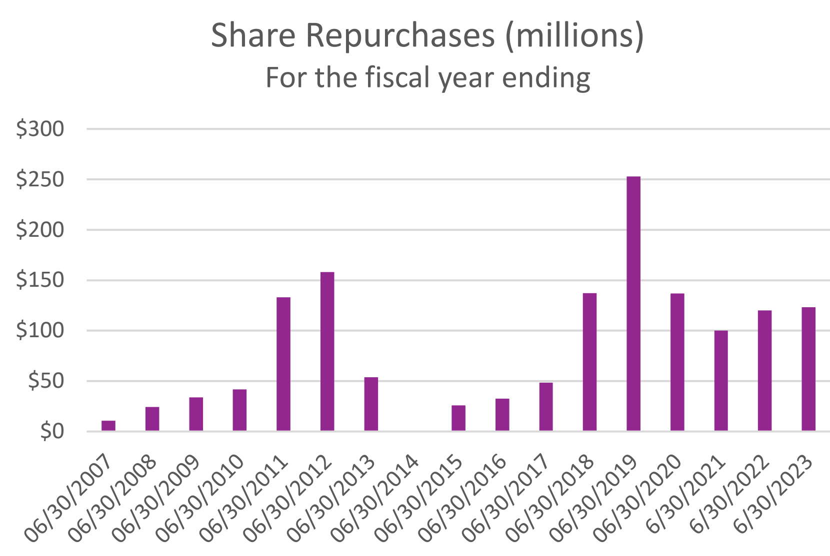
[130] ATGE Investor Day, June 20, 2023. Transcript provided by Bloomberg, LP. https://blinks.bloomberg.com/screens/DOCV%20TRAN%20RT000000003014781461

[131] ATGE's Credit Agreement, dated August 12, 2021. https://www.sec.gov/Archives/edgar/data/730464/000115752321001048/a52475947_ex101.htm

refinancing could also impede ATGE's ability to access capital markets in the future, if it ever does need excess liquidity to deal with any delays in Title IV disbursements.

These are not particularly complex financial risks for investors to unpack, so seeing ATGE stock performance over the past few years as these risks became apparent, we did ask ourselves, who exactly is buying ATGE stock?





Figures 15 and 16. ATGE Share Repurchases by Quarter and Share Price, and Share Repurchases by fiscal Year, in millions.

It would seem that ATGE is among the primary buyers of ATGE stock. Since Q1 2017, ATGE repurchased $1 billion worth of shares and over that period, ATGE received $10 billion in federal student loan disbursements.[132] In other words, ATGE used 10% of its federal student loan revenue to repurchase its own stock.

Now, we are not politicians and are not here to argue how buybacks present a moral hazard. However, for a company such as ATGE that may at any time be asked by ED to post tens of millions in guarantees or face investigations into their practices that can lead to hundreds of millions in additional liabilities, liquidity should be the overarching factor that dictates every decision. Stock price is not an effective store of value because in the event ATGE were to use its common equity for liquidity, it would likely be in response to any one of the scenarios we have described. The reduction in float would likely disproportionately affect share prices to the downside, just as it may have driven prices above their true value today. There is negligible active, hedge fund ownership of ATGE shares. We believe the primary beneficiaries of the ATGE share buybacks have been ATGE management.

We see this as a startling flow of capital—taxpayer dollars, earmarked for student borrowers' tuition and degree-related expenses, at greater and greater levels being instead directed towards stock repurchases and employee compensation, largely at the benefit of ATGE management over ATGE shareholders or ATGE students.

Indeed, ATGE has enriched themselves through their lucrative compensation packages. In the fiscal year 2023, ATGE paid its top 6 named executive officers over $15 million, of which over $8 million went to ATGE's CEO.[133] Over the same time period that ATGE received the $11.3 billion of federal loan disbursements (fiscal year 2015 through fiscal year 2023), $129.7 million went to its top named executive officers, just 6-7 people per year.[134] The year ATGE settled the $100 million lawsuit with the FTC for misleading students at DeVry University on their career statistics, its directors and named executive officers received $13.6 million in compensation, and the following fiscal year 2018, they received $21.4 million.[135] In fact, ATGE's current Chairman, and former CEO during the DeVry settlement and divestiture, doubled her compensation in the year ATGE announced DeVry's divestiture, taking home a package valued at nearly $12 million.[136]

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[132] Federal Student Aid, Title IV Program Volume Reports. Loan Volume, Direct Loan Program. Annual Year Summary in AY 2015-2016, Q4; AY 2016-2017, Q4; AY 2017-2018, Q4; AY 2018-2019, Q4; AY 2019-2020, Q4; AY 2020-2021, Q4; AY 2021-2022, Q4; and AY 2022-2023, Q4 Reports. https://studentaid.gov/data-center/student/title-iv

[133] ATGE SEC Proxy 2023. https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023016280/atge-20231108xdef14a.htm#

[134] ATGE SEC Proxies for 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023. https://www.sec.gov/edgar/browse/?CIK=730464&owner=exclude

[135] ATGE SEC Proxy 2017. https://www.sec.gov/Archives/edgar/data/730464/000162612917000548/bp96917x1_def14a.htm#tECT1

[136] ATGE SEC Proxy 2018. https://www.sec.gov/Archives/edgar/data/730464/000114036118040113/bp12677x1_def14a.htm#t2DC

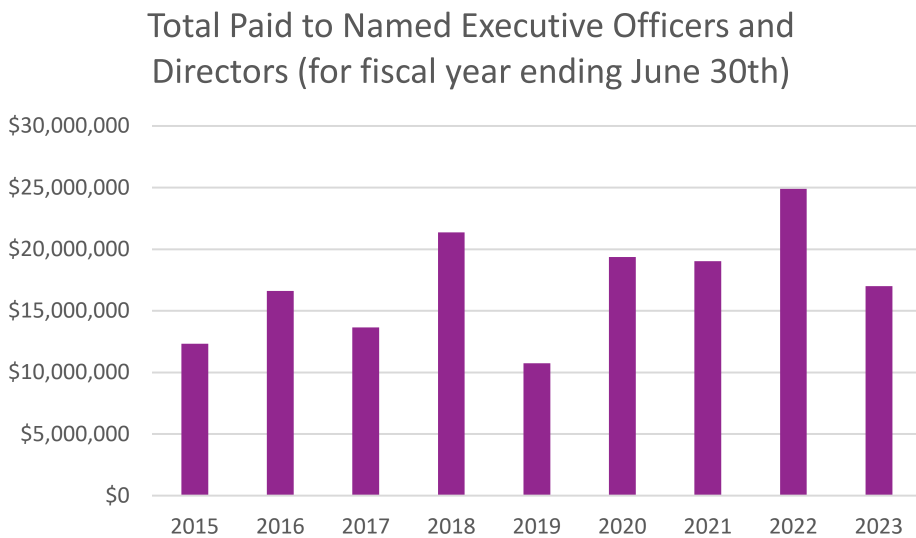

Figure 17. Total paid to ATGE Named Executive Officers and Directors, as listed in ATGE's proxy statements.[137]

The majority of ATGE's executive compensation is through stock awards. This is not revolutionary by any means, however, in 2023, ATGE changed their underlying metrics used to award performance stock units (PSU) to its executives. Previously, ATGE's PSUs were calculated on return on invested capital (ROIC) and free cash flow (FCF). These seemingly routine metrics were heavily adjusted to ensure that ATGE's executives achieved their stated targets, but they also seemed to include an alignment of interest between the executives and shareholders. In 2023, however, ATGE changed these performance metrics to revenue growth and EBITDA margin. Both revenue growth and EBITDA margin are directly related to enrollment figures.[138] ATGE specifically calls out the risk relating to enrollment of students, noting that if they, "are not able to continue to successfully recruit and retain our students, our revenue may decline."[139] What they fail to say is that this change gives ATGE executives even further incentive to perhaps be more aggressive in their recruiting and marketing tactics, which can bring in more scrutiny or other long-term legal and regulatory expenses down the road. Thus, we believe these are worse performance metrics for long-term shareholder value.

[137] ATGE SEC 10-K, for the period ending June 30, 2023. https://www.sec.gov/ix?doc=/Archives/edgar/data/730464/000155837023014509/atge-20230630x10k.htm
[138] ATGE SEC Proxy 2023. https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023016280/atge-20231108xdef14a.htm#
[139] ATGE SEC 10-K, for the period ending June 30, 2023. https://www.sec.gov/ix?doc=/Archives/edgar/data/730464/000155837023014509/atge-20230630x10k.htm

2023 SUMMARY COMPENSATION TABLE

This table shows the compensation of each of our NEOs for fiscal years ended June 30, 2023, 2022, and 2021.

Name and Principal Position	Fiscal Year	Salary ($)[(1)]	Bonus ($)[(2)]	Stock Awards ($)[(3)]	Option Awards ($)[(4)]	Non-Equity Incentive Plan Compensation ($)[(5)]	All Other Compensation ($)[(6)]	Total ($)
Stephen W. Beard	2023	949,846	—	5,808,957	—	1,205,839	89,452	8,054,094
President and	2022	828,466	—	6,916,139	1,103,560	258,388	97,779	9,204,332
Chief Executive Officer	2021	600,020	—	1,033,340	461,377	619,200	87,943	2,801,880
Robert J. Phelan	2023	506,585	—	929,694	—	528,743	22,044	1,987,066
Senior Vice President,	2022	436,615	—	651,785	38,089	106,635	67,295	1,300,419
Chief Financial Officer	2021	350,000	60,000	306,842	47,697	242,104	37,493	1,044,136
Douglas G. Beck	2023	543,523	—	498,567	—	502,505	61,977	1,606,572
Senior Vice President,	2022	512,115	170,000	479,934	120,070	129,780	30,084	1,441,983
General Counsel, Corporate Secretary and Institutional Support Services	2021	—	—	1,199,824	—	17,490	—	1,217,314
Maurice Herrera	2023	459,092	—	421,493	—	391,411	116,163	1,388,159
Senior Vice President,	2022	284,423	475,000	999,972	—	60,409	62,087	1,881,891
Chief Marketing Officer								
Steven Tom	2023	422,154	612,000	387,368	—	367,964	27,467	1,816,953
Senior Vice President,								
Chief Customer Officer								

Figure 18. 2023 Summary Compensation Table from the 2023 Proxy.[140]

The Higher Education Act of 1965 was updated in 2010 to reduce predatory behavior and misleading recruiting tactics through limiting incentive compensation at for-profit institutions.[141] The rule specifically says that an "institution will not provide any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any persons or entities engaged in any student recruiting or admission activities or in making decisions regarding the award of student financial assistance".[142] **Executives, however, are exempt.**[143] This was questioned by the Senate Health, Education, Labor and Pensions Committee in 2012, who recommended extending the incentive ban to all

[140] ATGE SEC 2023 Proxy. https://www.sec.gov/ix?doc=/Archives/edgar/data/0000730464/000155837023016280/atge-20231108xdef14a.htm#a2020SUMMARYCOMPENSATIONTABLE_60874

[141] Federal Register, Volume 75, No. 209. October 29, 2010. https://www.govinfo.gov/content/pkg/FR-2010-10-29/pdf/2010-26531.pdf

[142] "Higher Education Act of 1965," Approved November 8, 1965, Amended December 27, 2022. https://www.govinfo.gov/content/pkg/COMPS-765/pdf/COMPS-765.pdf

[143] "Program Integrity Questions and Answers – Incentive Compensation," Department of Education. https://www2.ed.gov/policy/highered/reg/hearulemaking/2009/compensation.html

employees at each institution.[144] Since executives at ATGE and other for-profit institutions set the goals and strategy for enrollment and marketing, it would make sense that they should also be bound to the no incentive compensation rule. Instead, it appears that ATGE has now tied their executive performance compensation directly to pushing enrollments, which is a risk to shareholders, taxpayers and students alike. We find the lack of inclusion of executives in this rule a disservice to all.

3. America Has a Problem: The Student Debt Crisis and the Contributions of For-Profits

With student debt approaching $2 trillion and representing nearly 10% of all American household debt, the subject has rallied vocal masses across partisan lines.[145] Some advocate for broader student loan forgiveness, others rage against the idea that someone else may be afforded a benefit they themselves missed out on. What gets lost in these discussions is nuance, so allow us to introduce some.

Of all the federal student loans disbursed in June 2023, over 16% went to for-profit university operators, including ATGE.[146]

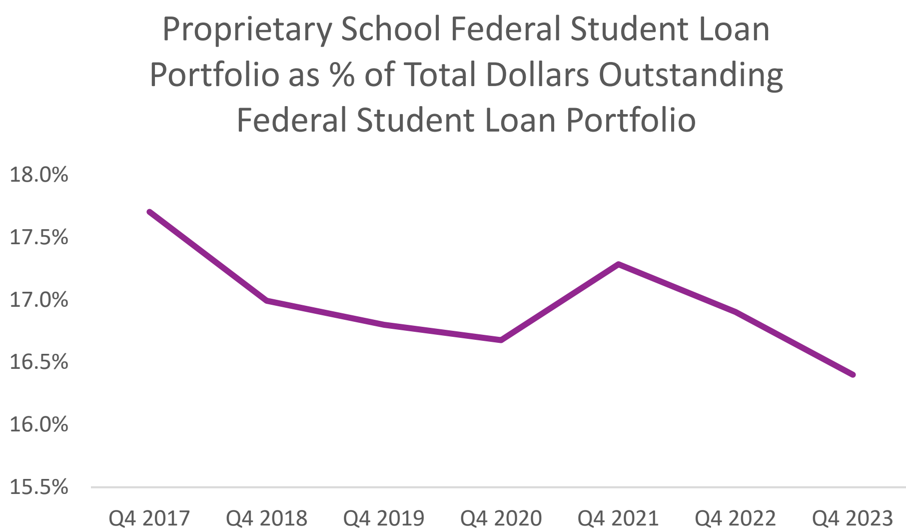

Figure 19. Percentage of Federal Student Loan Portfolio Outstanding related to Proprietary Schools.[147]

[144] "For-Profit Higher Education: The Failure to Safeguard the Federal investment and Ensure Student Success," U.S. Senate Health, Education, Labor and Pensions Committee. July 30, 2012. https://www.help.senate.gov/imo/media/for_profit_report/PartI-PartIII-SelectedAppendixes.pdf?

[145] "Household Debt and Credit Report, Q3 2023," Federal Reserve Bank of New York, Center for Microeconomic Data. https://www.newyorkfed.org/microeconomics/hhdc

[146] Federal Student Loan Portfolio by School Type, Department of Education. https://studentaid.gov/data-center/student/portfolio

[147] Federal Student Loan Portfolio by School Type, Department of Education. https://studentaid.gov/data-center/student/portfolio

On average, approximately 20% of federal student loan recipients attended a for-profit school. Interestingly, the trend validates what we have seen with ATGE enrollments; as much as for-profit universities and their friends passed champagne for a Trump presidency and a Devos ED, they were objectively receiving less money over those years.

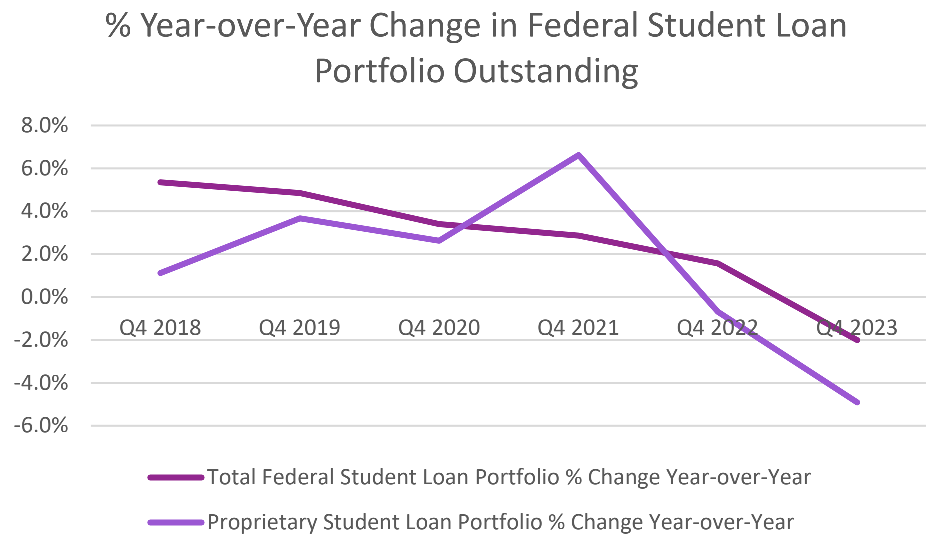

Figure 20. Federal Student Loan Portfolio Outstanding Changes for all institutions and those related to Proprietary Schools.[148]

After a COVID-driven spike in for-profit growth, declines are outpacing non-profit schools. We of course welcome these declines, given what we feel is the societal drain these schools create and the financial strain they put upon taxpayers. However, let's not forget and though in decline, for-profits still represent nearly $300 billion of $1.6 trillion in federal student loans outstanding.

And, ATGE isn't just a drop a bucket of that $1.6 trillion, either. Since FY 2016, including all federal sources of funding, ATGE received $11.523 billion in disbursements. Over that same time, ATGE had nearly $12 billion in federal student loan originations.[149] These figures were representative of on average, 60,000 students enrolled a year across ATGE schools. Within ATGE's current portfolio, RUSM, RUSVM, and AUC cumulatively receive more in federal funds than any other ATGE school, despite only 5,300 students enrolled, on average, per year. No other institution, whether for-profit or non-profit, receives more federal funds than ATGE.

[148] Federal Student Loan Portfolio by School Type, Department of Education. https://studentaid.gov/data-center/student/portfolio

[149] Federal Student Aid, Title IV Program Volume Reports. Loan Volume, Direct Loan Program. Annual Year Summary in AY 2015-2016, Q4; AY 2016-2017, Q4; AY 2017-2018, Q4; AY 2018-2019, Q4; AY 2019-2020, Q4; AY 2020-2021, Q4; AY 2021-2022, Q4; and AY 2022-2023, Q4 Reports. https://studentaid.gov/data-center/student/title-iv

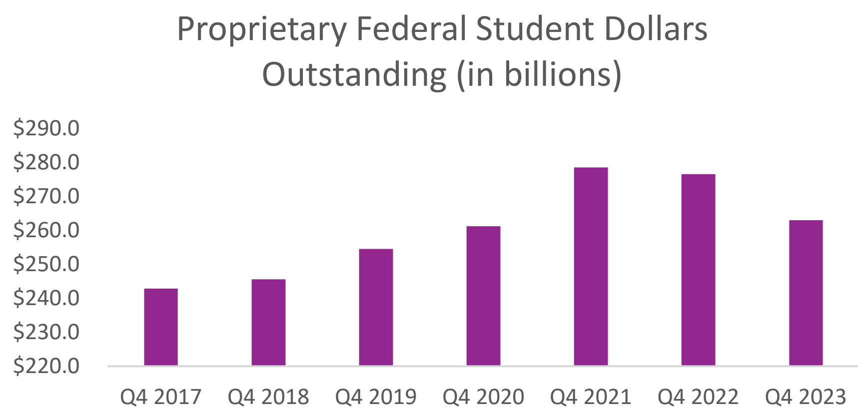

Figure 21. Federal Student Loan Portfolio Outstanding related to for-profit schools.[150]

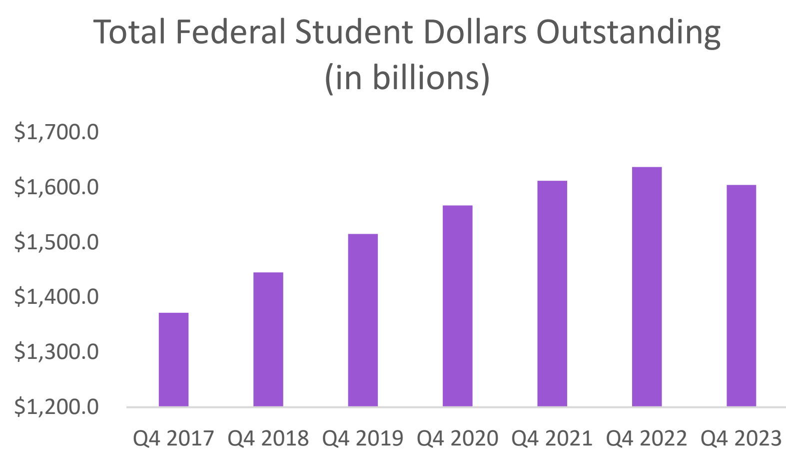

Figure 22. Federal Student Loan Portfolio Outstanding.[151]

Considering how rich and remarkable the American higher education system is, attracting the brightest minds from all over the world, it is shocking that we find it fitting to send a for-profit operator like ATGE nearly $2 billion each year, but international students do not seem nearly as enthralled to give ATGE money for a chance at an American education.

[150] Federal Student Loan Portfolio by School Type, Department of Education. https://studentaid.gov/data-center/student/portfolio

[151] Federal Student Loan Portfolio by School Type, Department of Education. https://studentaid.gov/data-center/student/portfolio

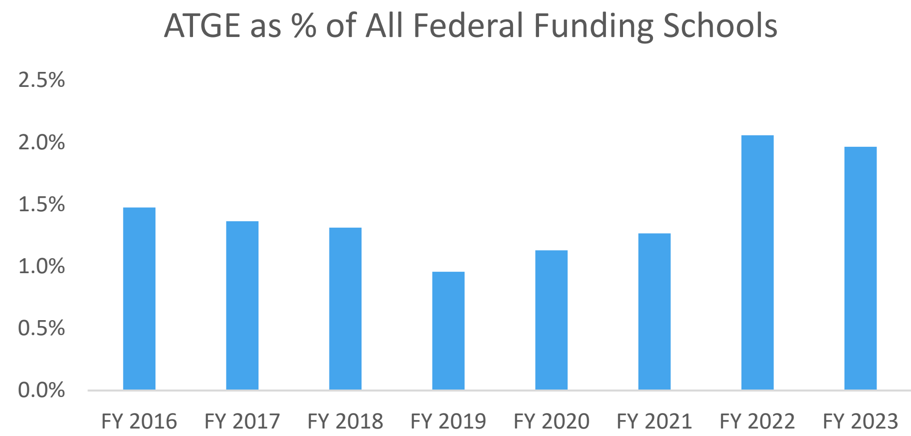

Figure 23. Percentage of all Federal Title IV funding that was disbursed to ATGE.[152]

Perhaps we would have less cause for outrage if, in spite of these numbers, ATGE produced graduates who would obtain employment worthy of the taxpayer dollars spent, graduates who may be a reliable source of interest income, and who can be trusted to fully pay off their loan balances while contributing constructively to the country's economy.

We have already presented our analysis of gainful employment because now that the rule is set to take effect on July 1st, 2024, we believe that there will be an immediate impact upon ATGE's fundamentals. However, to assess the bigger question of whether or not ATGE federal aid is a *worthwhile* investment for US taxpayers, let us also take a look at repayment status across ATGE's schools.

One fact to keep in mind, is that ATGE's students—whom have genuine desire to serve and many of whom do end up in healthcare and similarly authoritative positions—are *responsible borrowers*. Even from our discussions with former students, though all of the students do feel they were wronged by ATGE, they all still diligently make their student loan payments, usually on income-based or contingent repayment plans. They forgo taking on additional debt, for example a mortgage, because they are so cautious of worst case possibilities if their borrower defense claims are rejected. These are not the lazy, financially irresponsible do-nothings that some pundits may have you believe.

Nevertheless, we see that Walden and Chamberlain trail far behind the average rate for loan repayment across the federal student loan portfolio. The forbearance rate is also nearly double the federal rate across these two ATGE schools.

We have highlighted Walden and Chamberlain below because while their students are also responsible borrowers, they will generally have lower earnings potential than ATGE's other graduates, which may

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[152] Federal Student Aid, Title IV Program Volume Reports. Loan Volume, Direct Loan Program. Annual Year Summary in AY 2015-2016, Q4; AY 2016-2017, Q4; AY 2017-2018, Q4; AY 2018-2019, Q4; AY 2019-2020, Q4; AY 2020-2021, Q4; AY 2021-2022, Q4; and AY 2022-2023, Q4 Reports. https://studentaid.gov/data-center/student/title-iv

make their monthly cash management more difficult. However, the medical and veterinary schools produce graduates with on average, well above $300,000 in debt; though repayment can be managed through income-based repayment, they are at higher risk of never being able to fully pay off these loans given the interest being accrued.[153,154] The students we have spoken to have expressed as much.

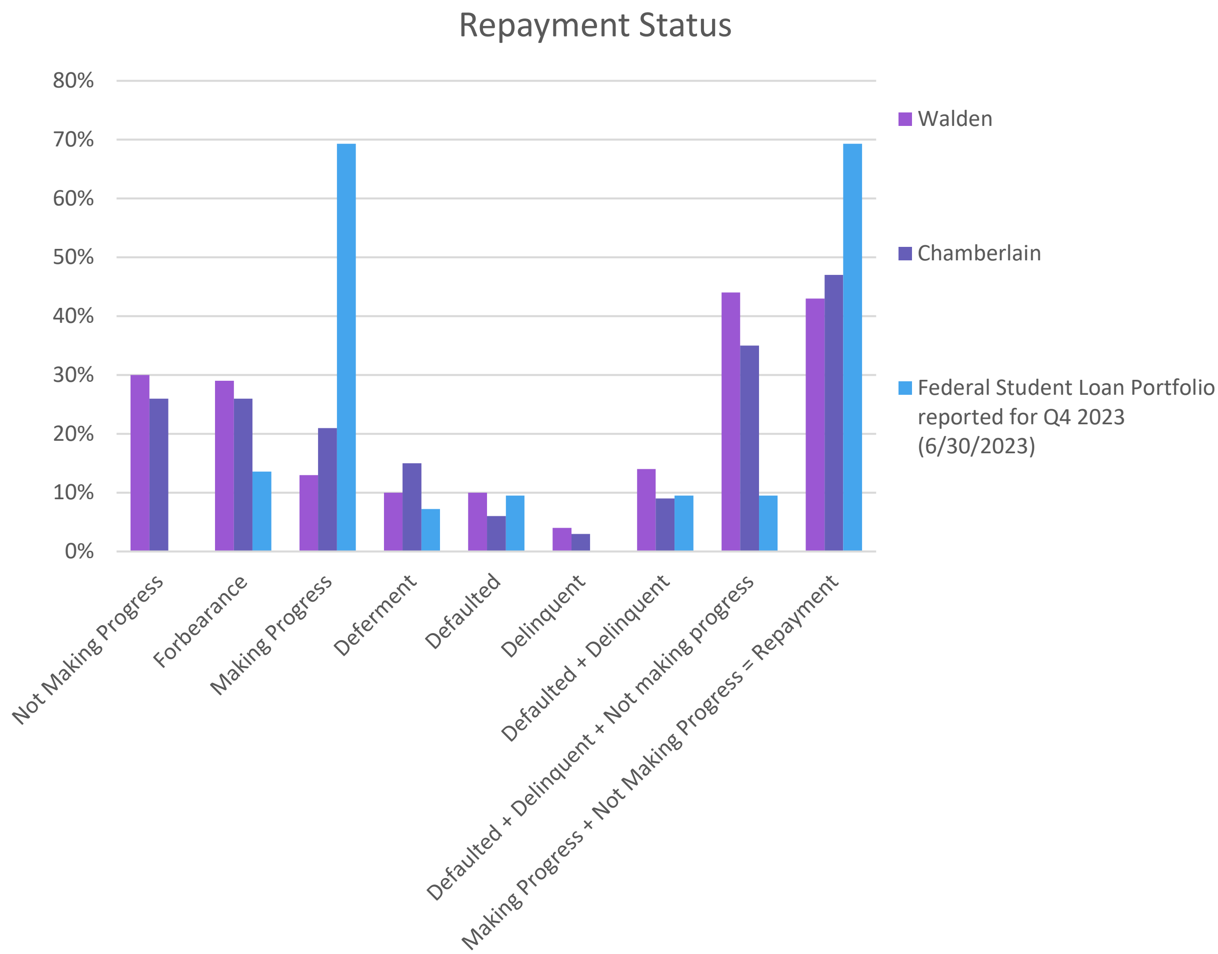

Figure 24. Repayment Status of Federal Student Loans and those related to Walden University and Chamberlain University.[155,156]

[153] American University of the Caribbean, Institution Information, Department of Education. https://studentaid.gov/understand-aid/types/international/american-university-caribbean

[154] Ross University School of Medicine, Institution Information, Department of Education. https://studentaid.gov/understand-aid/types/international/ross-university-school-medicine

[155] https://collegescorecard.ed.gov/school/?125231-Walden-University and https://collegescorecard.ed.gov/school/?454227-Chamberlain-University-Illinois

[156] Portfolio by Loan Status, Department of Education, Federal Student Aid. https://studentaid.gov/data-center/student/portfolio

In general, for-profit universities have a history of predatory targeting of minority students. This predatory inclusion is discussed extensively in a 2021 report by the Student Borrower Protection Center (SBPC). They conclude that for-profit schools enroll disproportionately high numbers of minorities and,

> "*The toxic combination of the racial wealth divide and the presence of low-quality institutions that load students with debt and offer little in return has perpetuated a crisis across the country, felt most acutely by borrowers and families of color whose only fault was trying to get an education."*[157]

In conversation with a former ATGE marketing executive, while there is reluctance to admit that there is *actual direct targeting* of minorities, which could be considered discriminatory, instead the executive states,

> *"Single parents, a lot of diversity, Hispanic, African-American, mostly female... it's just the kind of population that is looking for this type of education... the presence of diversity is higher than the normal population."*[158]

A January 2022 class action against Walden alleged the school targets black and female students in a predatory and deceptive manner. Over 40% of Walden's PhD students are black and nearly 80% of them are female. According to the lawsuit, 99.8% of Walden's entire local advertising budget was targeted at areas with an above-median percentage of Black residents, echoing the geographic argument for predatory inclusion discussed by the SPBC.[159] A New York Times article discussing the class action highlighted that one out of every nine PhDs received by a Black student in America comes from Walden.[160] ATGE is looking to settle this lawsuit.[161]

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157 "2021 Highlights Report," Student Borrower Protection Center, December 2021. https://protectborrowers.org/wp-content/uploads/2021/12/SBPC-EOY-2021-Report.pdf

158 Conversation with former executive, January 15th, 2024.

159 Carroll v. Walden, Case: 1:22-cv-00051-JMC, U.S.D.C. District of Maryland. https://www.defendstudents.org/cases/carroll-v-walden

160 Green, Erica. "Lawsuit Charges For-Profit University Preyed on Black and Female Students," The New York Times. April 8, 2022. https://www.nytimes.com/2022/04/08/us/politics/walden-university-lawsuit.html

161 ATGE SEC 10-Q, for the period ending, September 30, 2023. https://www.sec.gov/ix?doc=/Archives/edgar/data/730464/000155837023016860/atge-20230930x10q.htm

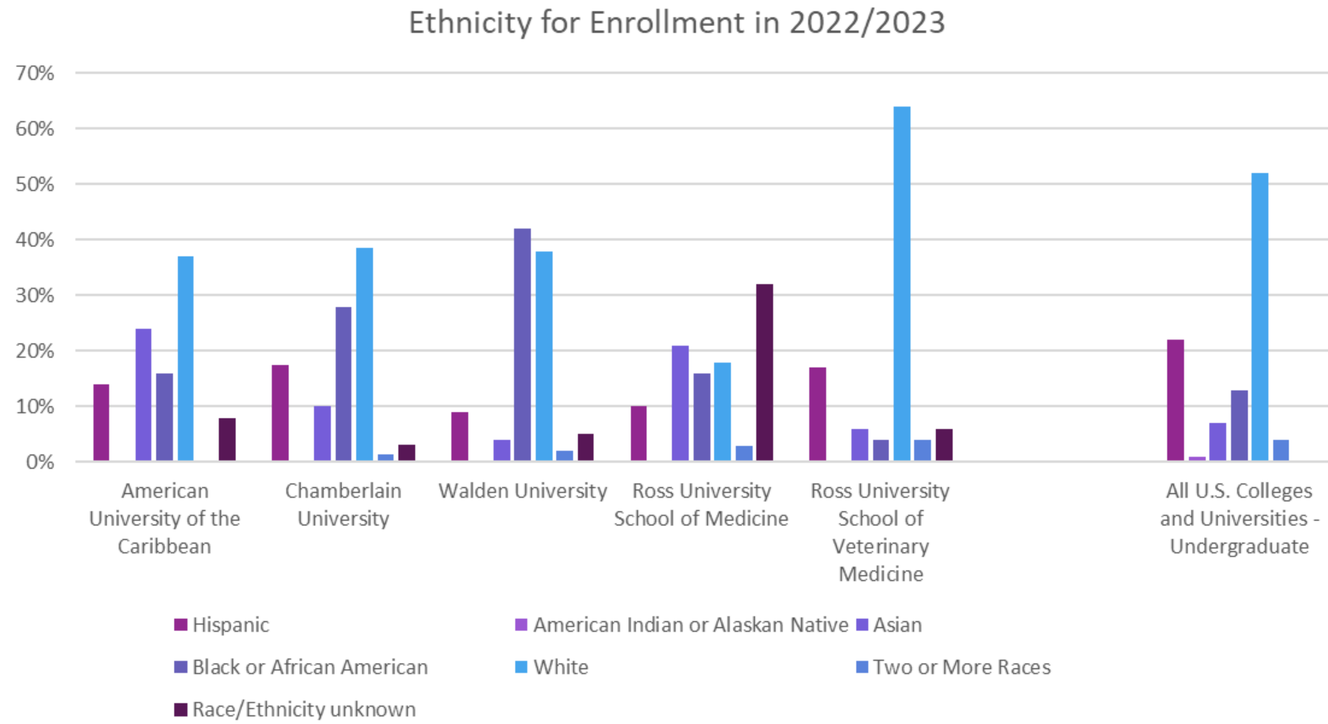

Figure 25. Demographic Information for ATGE's institutions and for all US Colleges and Universities. Data compiled from ATGE's Student Consumer Information webpages and the National Center for Education Statistics.[162]

I think we can all agree that economic opportunity is the primary means by which we seek social mobility. Higher education can be critical to that. However, if the associated debt disproportionately affects those already at a disadvantage, then there does feel to be something especially unsavory about potentially targeting them specifically.

This is not only along racial lines, but also military. In 2021, ATGE settled another class action lawsuit alleging Chamberlain used aggressive and illegal recruiting efforts targeted at military service members and family.[163,164] These are families that have made unimaginable sacrifices for our nation's security—we had the chance to speak to a Walden master's graduate whose spouse is active-duty military,

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162 https://www.chamberlain.edu/about/student-consumer-information; https://medical.rossu.edu/student-consumer-information; https://veterinary.rossu.edu/student-consumer-information; https://www.waldenu.edu/legal/consumer-information; https://www.aucmed.edu/student-consumer-information; and https://nces.ed.gov/programs/coe/indicator/csb/postsecondary-students

163 Vandiver v. ATGE, Case 1:17-cv-05120-AT. U.S.D.C. for the Northern District of Georgia, Atlanta Division. https://storage.courtlistener.com/recap/gov.uscourts.gand.245071/gov.uscourts.gand.245071.1.0.pdf

164 ATGE SEC 10-Q, for the period ending March 31, 2021. https://www.sec.gov/ix?doc=/Archives/edgar/data/730464/000155837021005248/atge-20210331x10q.htm#

> *"It makes sense why they target so... people wanting to make a good transition when they leave the military... You know, it's embarrassing. No one wants to realize they were a victim of this sort of thing.*"

Put aside political ideology for a moment: *taxpayers are sending hundreds of billions to schools that widen the wealth gap and leave even our military in a cycle of poverty*.

4. A Factory Farm Education

While the declining trends across ATGE can in part be attributed to regulatory actions and bad publicity, ultimately ATGE provides a service and therefore student experience will help us further assess the sustainability of the business model in the longer-term.

Students enrolling in ATGE may not have seen an education there as their top choice, but at some point it becomes, in their view at least, their only choice. These students end up at ATGE as they are chasing a dream; the top dream job of American children is a doctor, and another popular top dream job is a veterinarian.[165] Whether due to various life circumstances, effective marketing, or a view that ATGE offers convenience, students are sucked in and struggle to make it out with their dreams intact.

I. Admissions Process

Selectivity is one factor students consider in choosing a university. Walden's acceptance rate is 100% and Chamberlain's is 93%.[166] [167] It is unclear what, if any, assessment is conducted to determine whether or not a student is adequately prepared for their coursework and has the capacity to ultimately complete their degree requirements in a reasonable amount of time. As we have already highlighted, many of these students are coming from underprivileged backgrounds and may not have had access to quality secondary education; for such students to prosper in higher education, they likely need additional resources that a margin-constrained for-profit may not be willing or able to provide.

As far as the medical schools are concerned, a simple web search for "get into medical school low GPA" and similar queries will inundate you with sponsored results for RUSM and AUC. Neither school has a minimum GPA or MCAT requirement, and there is evidence that RUSM will even accept students with

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[165] "Childhood Dream Jobs in 2022: Kids in the US want to work in healthcare," USAWire, November 2, 2022. https://usawire.com/childhood-dream-jobs-in-2022-kids-in-the-us-want-to-work-in-healthcare/

[166] Walden University, Department of Education College Scorecard. https://collegescorecard.ed.gov/school/?125231-Walden-University

[167] Chamberlain University Admissions, U.S. News & World Report. https://www.usnews.com/best-colleges/chamberlain-university-6385/applying

GPAs as low as 2.6 for pre-medical classes.[168,169,170] If incoming students struggled through their undergraduate coursework, it is unclear what gives ATGE confidence they will be able to handle the notoriously rigorous and unforgiving coursework in medical school.

ATGE schools also do not have an application fee; this is meaningful, especially for students with limited socioeconomic means, as aspiring medical students are asked to budget $5,000 to $10,000 for their application costs.[171] We spoke to a RUSVM graduate who had strong credentials that likely would have landed him a spot at an onshore school, but due to application costs, he only sent out 2 applications. Then, as RUSVM offered a free application and he knew of veterinarians that had graduated from there, he went ahead and applied, and was quickly accepted. He enrolled because he did not want to delay his education and wanted to shorten his time to becoming a vet. What he believed was a choice that would save him money, ultimately left him with over $300,000 in debt and he has filed for borrower defense.

We have also heard about examples of ATGE pressuring students to accept their enrollment almost immediately, not allowing them time to wait for other admissions offers or get themselves off the waitlist at onshore schools. Students told us they were told they may lose their seat for the semester if they do not accept quickly.

Stories like this are all too common across ATGE and it is impossible not to sympathize with these students; they were desperate to do whatever they felt it would take to fulfill a dream.

II. Financial Aid

One largescale falling of American education generally, is the state of financial literacy among even those pursuing higher education. Resources on financial aid, and understanding basic concepts like compound interest, leave many students—regardless of the institution they attend—lost once they see their student loan balances after graduation.

Through our conversations with former ATGE students, there was a general confusion over how their student loan balances got as large as they did. Some students referred to feeling pressured to "max out" their federal student loans, and others indicated that the expense estimates provided at enrollment were far below actual expenses, especially at the Caribbean schools where living costs were particularly high for students and ATGE provided limited support for finding accommodation. Even after taking out the maximum available to them under Title IV, some of these students would also need to then take out private loans. One student who was reluctant to take on any private loans told us,

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[168] RUSM Admission Requirements. https://medical.rossu.edu/admissions/admissions-requirements

[169] AUC Admission Requirements. https://www.aucmed.edu/admissions/admissions-requirements

[170] "WSU-Ross University School of Medicine Partnership." https://ip.wsu.edu/future-students/about-wsu-programs/rusm/

[171] "Here's how much medical schools are paying just to get into school." CNBC. October 4, 2019. https://www.cnbc.com/2019/10/04/it-can-cost-10000-to-apply-for-medical-school.html

> *"I was called out of class to Financial Aid and was told if I did not sign for my loans right then and there, I would be dismissed from the school, stripped of my Visa, and* ***I would return home without a degree and a lot of debt."***

ATGE also directed students to a third-party financial advisory firm, Graduate Leverage, whose founder was later convicted of fraud and sent to prison.[172]

Managing the costs of higher education is difficult as is, but, at least from the students we have spoken to, institutional negligence and perhaps outright failure and intimidation, has exacerbated the debt burdens of these students.

III. Attrition, Graduation, and Gaming Performance

A common theme from student interviews was that attrition rates across the Caribbean schools were high, as high as 50%+. This would suggest that almost half of the students who attend these schools, who may already have had over six figures in federal funds disbursed to cover their tuition, are either leaving or being expelled from the school prior to earning the degree critical to their ability to repay. This may not be all too surprising given the admissions standards. When former ATGE executives were asked about attrition rates, it was clear that ATGE calculates attrition—though it refuses to disclose this metric—and it was a material concern.

Many students also commented that there would often not be enough seats in lecture halls to accommodate class size, suggesting over-enrollment.

Perhaps the most startling allegations we heard from students was around unexplained grade curves, which they described as being unfairly used to fail a certain number of students to ensure enough seats for clinical rotations. One RUSVM student described a genuinely nightmarish experience,

> *"They actually changed my transcript... I had passed the class, but they had deliberately, illegally changed my transcript... [financially] this is where I feel like a lot of fraud comes into play.* ***The more years on the island at the university, the more money the university makes."***

At Walden, when we spoke to students who were enrolled in PhD programs there, we were shocked to hear how the dissertation process would be stalled or delayed for seemingly nuisance reasons and no matter what remedies a student sought, the school would find but another cause for delay. One student, who is a full class member in the settled *Sweet v. Cardona* borrower defense case, told us,

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[172] Royale, Rosette. "GL Advisor Founder sentenced to nine years in prison," VINNews Service, June 17, 2016. https://news.vin.com/default.aspx?pid=210&Id=7399497&f5=1

"[My advisor] never got past probably the second page of a 100 page document. She's doing nothing and she's getting $12,000 a year per student... and she was teaching at 19 schools. How can you even teach at 5 schools and be successful... I do know that I will never live long enough to pay off these loans.... One of my biggest fears in my life right now is how if I die right now, how my [special needs] son would end up... $800,000, how'd you let me get there."

All of this anecdotal evidence does point to a disconnect between the performance metrics ATGE publishes and advertises and what happens in practice.

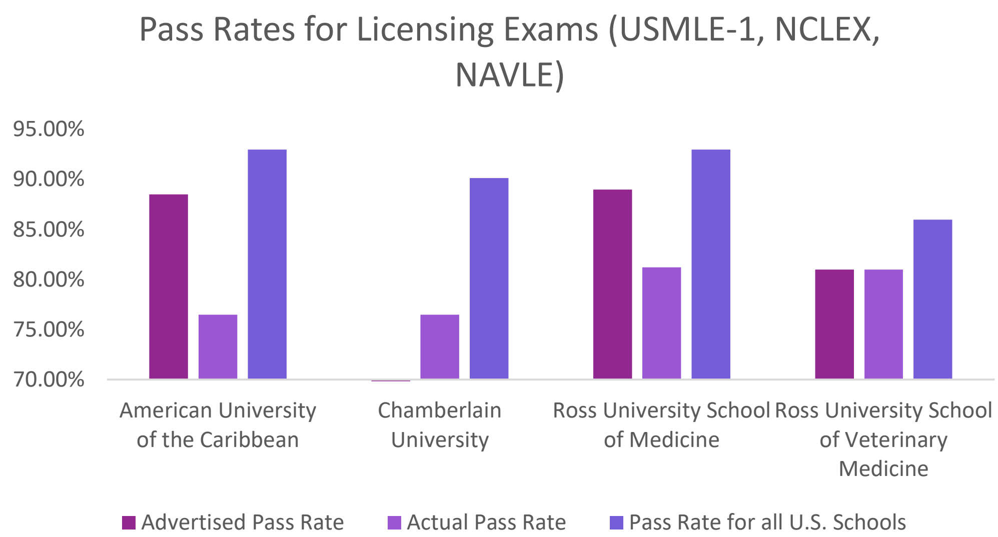

Figure 26. Pass Rates for Licensing Exams at ATGE's Institutions. Data compiled from ATGE's websites.[173]

As you can see, across the board of the "crown jewel" healthcare degree programs at ATGE, we see that ATGE students are lagging well behind national averages. This is a very different picture than what is shown to students in glossy admissions materials.

What also is not reflected, even in the numbers above, per our understanding, is that many students are *not even allowed to sit for their licensing exams*, even if they paid for the right to do so, as we have learned from our discussions with former ATGE students. In order to maximize the pass rate that is published to prospective students, it appears that ATGE schools may kick out a student they suspect may have even a minimal risk of failing their licensing exam.

[173] https://www.aucmed.edu/about/facts-and-figures; https://medical.rossu.edu/; https://veterinary.rossu.edu/about/accreditation; https://studentaid.gov/understand-aid/types/international/american-university-caribbean; https://www.chamberlain.edu/about/student-consumer-information; https://studentaid.gov/understand-aid/types/international/ross-university-school-medicine; https://www.icva.net/image/cache/Annual_Stakeholder_Report_2022-2023_FINAL.pdf; https://www.usmle.org/performance-data; and https://www.ncsbn.org/public-files/NCLEX_Stats_2023_Q4_PassRates.pdf

ATGE students did not only express difficulty around securing their internships, they also expressed concern over their quality. One Walden mental health counseling graduate told us,

> *"The site really wasn't appropriate…. The site supervisor… he wasn't really that concerned that we weren't meeting the program specifications… it was always kind of manufactured."*

Failure to provide appropriate practical experiences—that are a required part of a degree program—could additionally raise accreditation concerns. And even delays in being placed into a clinical rotation, i.e. at RUSM, could be an issue CAAM-HP is considering in its ongoing review.

Regardless of which ATGE school we look at, graduation rates across all of them fall well below the midpoint of graduation rates at traditional, non-profit universities.

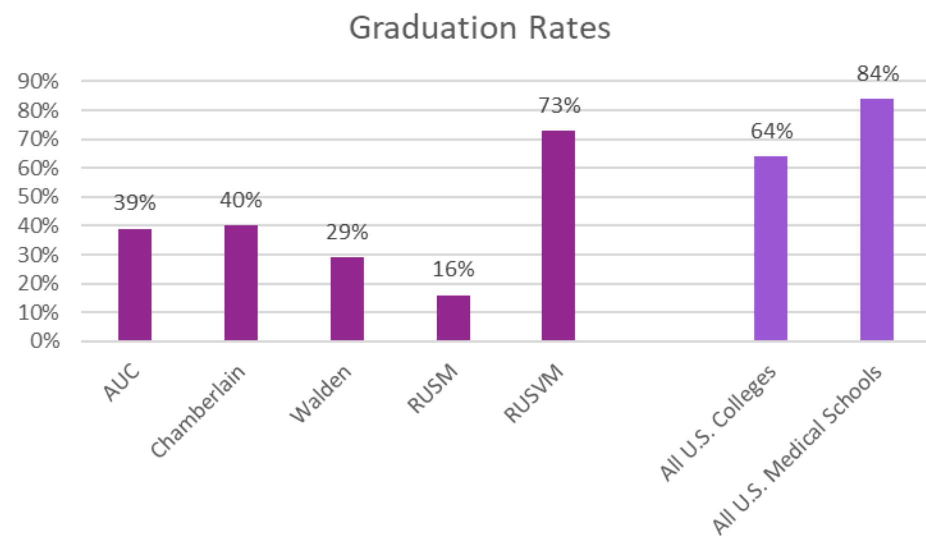

Figure 27. Graduation Rates[174]

Ironically, the only ATGE school with remotely reasonable graduation rates—RUSVM at 73%—is the one program that is at highest risk for failing gainful employment.[175]

We find there are only two logical conclusions for the dynamic between very high admissions rates and very low graduation rates:

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174 https://studentaid.gov/understand-aid/types/international/american-university-caribbean; https://www.chamberlain.edu/about/student-consumer-information; https://collegescorecard.ed.gov/school/?125231-Walden-University; https://studentaid.gov/understand-aid/types/international/ross-university-school-medicine; https://www.avma.org/javma-news/2015-06-01/crunching-numbers#:~:text=About%2073%20percent%20of%20Ross,in%20the%20usual%20four%20years; https://nces.ed.gov/programs/coe/indicator/ctr/undergrad-retention-graduation; and https://www.aamc.org/media/48526/download

175 "Crunching the Numbers," American Veterinary Medical Association, May 13, 2015. https://www.avma.org/javma-news/2015-06-01/crunching-numbers#:~:text=About%2073%20percent%20of%20Ross,in%20the%20usual%20four%20years

1) Students are admitted that should not be, as they are not adequately prepared for the rigor of their degree;
2) Students are not taught or given the resources necessary to successfully complete their degree.

Either conclusion would then imply ATGE is knowingly admitting students that it expects to fail out, which we believe constitutes an indiscriminate abuse of public funds.

IV. Career Outcomes

In a 2014 National Bureau of Economic Research (NBER) study, Deming et al. discuss employer perceptions of postsecondary degrees and conduct an experiment, concluding that,

> *"In applications to health jobs, we find that for-profit credentials receive fewer callbacks unless the job requires an external quality indicator such as an occupational license."*[176]

Across the student interviews we conducted, outside of those successfully graduating with a MD, DVM, or other medical license, it was a common theme that graduates find themselves underemployed and working in jobs which rarely utilize the skills associated with their degree. For example, a mental health counselor graduating from Walden expressed difficulty in obtaining the postgraduate practical experience that would be necessary to even obtain required state licensures—and, without those licensures, they are unable to practice.

And even for the MDs that graduate from ATGE schools, they are not competing for the most attractive residencies due to how competitive they have become; instead, US-educated MDs and DOs are given preference while ATGE graduates are relegated to lower-paying fields like family medicine or pediatrics.

And for the vast majority of students across ATGE schools that fail to complete their degree program at all? From what we have seen, many of them go back to the jobs they worked before they ever set foot on an ATGE campus. One student we spoke with, who has over half a million in loans for RUSVM but did not graduate, has worked as a veterinary technician, but even this job may be in jeopardy as many states require additional schooling or certification—her unfinished DVM counts for nothing.

ATGE executives constantly promote the idea that they are empowering their students; that they are providing a chance at professional degrees that will help the underprivileged break out of a cycle of poverty.

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[176] Deming, David, Yuctman, Noam, Abulafi, Amira, Goldin, Claudia, & Katz, Lawrence, "The Value of Postsecondary Credentials in the Labor Market: An Experimental Study." Issued September 2014, revised January 2016. https://www.nber.org/papers/w20528

Rather than be empowered, ATGE students have become indebted; stuck with thousands in monthly student loan payments, but without sufficient income to reliably pay the entirety of their loan balances. One Walden student said,

> *"The only way I can deal with it is probably to stay in school until I die. And I'm not in school right now because I don't want to do that. But I do know [Walden graduates] that are doing that. They're staying in school because they can't afford [to make payments]."*

All of the students we spoke to expressed their concern, that because of, or in spite of the careers they have, they do not believe they can ever pay off their loans. And this admission was accompanied by deep shame on their part; they fully understand the losses to the rest of us. The only party that seems none the wiser is ATGE itself: promoting itself as an ivory tower for those young Americans eager to serve, only to push those students down a debt spiral they will likely be in for life.

5. Conclusion

It is our belief that ATGE has serious issues to contend with in the near-term.

Students' experiences with ATGE have altered the course of their lives, and seemingly for the worse. Yet, all of us are directly affected by what happens from the minute a single taxpayer cent is disbursed to the last payment a former ATGE student makes back to us.

ATGE executives are longtime industry insiders and we have seen, from ITT to Corinthian, how for-profit management teams are paid handsomely even as they lead their schools off a liquidity cliff. And, up until that critical juncture, shareholders, students, and the public remain mostly in the dark.

Management may point to its aggressive use of buybacks to generate shareholder value, but if the company were ever to face a liquidity crunch following any number of the real risks we have described, then these nominal increases in share price accompanied by massive reductions in shares outstanding will likely only serve to exacerbate equity downside.

Management may also point to the diverse representation among its student body, that it offers opportunities to these populations that otherwise would not exist. However, our analysis would suggest that minority representation is largely a product of how much ATGE spends on targeting them and their communities.

We hope that this report can be a start to bridging the partisan divide and that all of us, regardless of political ideology, are able to see how often the for-profit university business model is a largely parasitic and toxic byproduct of an imperfect higher education system. Over the coming days and weeks, we will continue to publish additional information so we may continue to keep the light on this dark corner of the market.

Indeed, while the wheels of justice may be slow, the capital markets are not.