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Market Intelligence

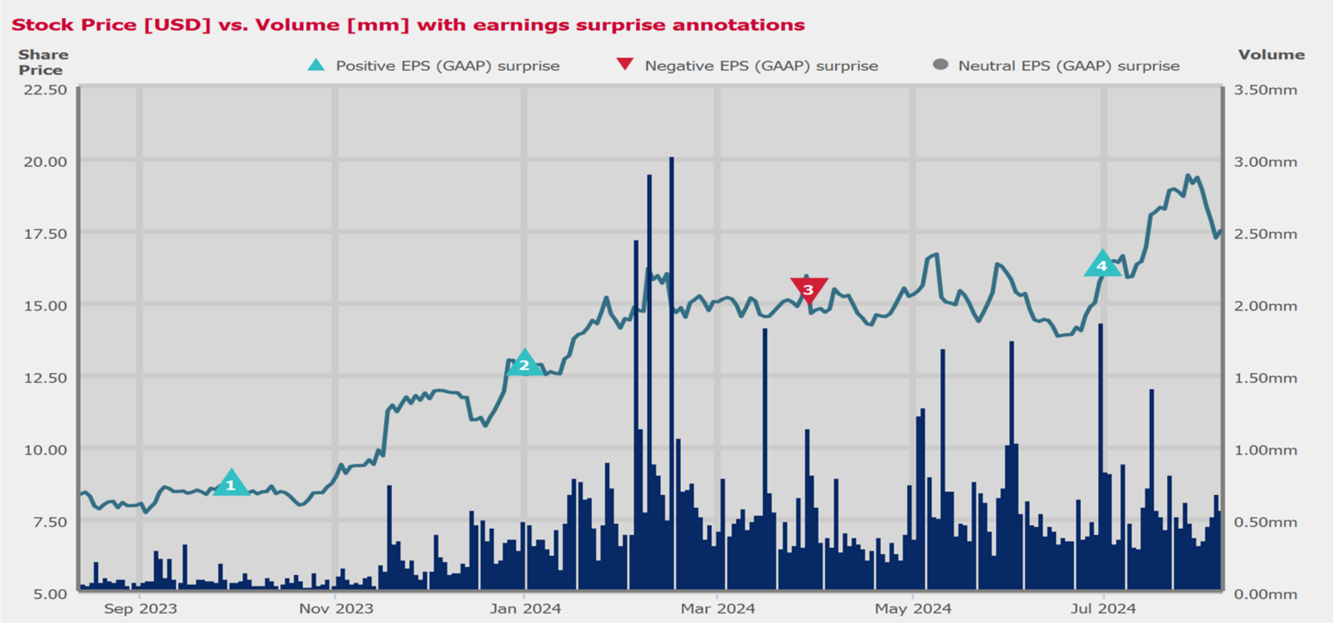
Universal Technical Institute, Inc.
NYSE:UTI
FQ3 2024 Earnings Call Transcripts

Tuesday, August 06, 2024 8:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2024-			-FQ4 2024-	-FY 2024-		-FY 2025-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE	CONSENSUS	GUIDANCE
EPS (GAAP)	0.06	0.09	▲28.57	0.32	0.70	-	0.92	-
Revenue (mm)	172.87	177.46	▲2.66	192.80	724.55	730.00	797.75	800.00

Currency: USD
Consensus as of Aug-01-2024 9:47 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2023	0.07	0.10	▲1 42.86 %
FQ1 2024	0.04	0.17	▲2 325.00 %
FQ2 2024	0.15	0.14	▼3 (6.67 %)
FQ3 2024	0.06	0.09	▲4 28.57 %

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Call Participants

EXECUTIVES

Jerome A. Grant
CEO & Director

Matthew Kempton
Vice President of Corporate Finance

Troy R. Anderson
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ANALYSTS

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

Jasper James Bibb
Truist Securities, Inc., Research Division

Michael John Grondahl
Northland Capital Markets, Research Division

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B. Riley Securities, Inc., Research Division

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

Presentation

Operator

Good day, and welcome to the Universal Technical Institute Third Quarter 2024 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Matt Kempton, VP, Corporate Finance. Please go ahead.

Matthew Kempton
Vice President of Corporate Finance

Hello, and welcome to Universal Technical Institute's Fiscal Third Quarter 2024 Earnings Call. Joining me today are our CEO, Jerome Grant; and CFO, Troy Anderson. Following our prepared remarks, we will open the call for your questions. A replay of this call, it's transcript and our investor presentation will be archived on the Investor Relations section of our website at investor.uti.edu, along with our earnings release issued earlier today and furnished to the SEC.

During this call, we may make comments that contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, which by their nature, address matters in the future and are uncertain. These statements reflect management's current beliefs and expectations and are subject to a number of factors that may cause actual results to differ materially from those statements.

These factors include, but are not limited to, those discussed in our earnings release and SEC filings. These statements do not guarantee future performance, and therefore, undue reliance should not be placed upon them. We do not intend to update these forward-looking statements as a result of new information or future developments, except as required by law. Please note, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of fiscal 2023.

The information presented today also includes non-GAAP financial measures. These should be viewed in addition to and not as a substitute for, the company's reported results prepared in accordance with U.S. GAAP. All non-GAAP financial measures referenced in today's call are reconciled in our earnings press release to the most directly comparable GAAP measure. For more information regarding definitions of our GAAP measures, please see our earnings release, financial supplement and investor presentation.

With that, I will turn the call over to Jerome Grant, CEO of Universal Technical Institute for his prepared remarks. Jerome?

Jerome A. Grant
CEO & Director

Thank you, Matt. Good afternoon, everyone. Before we jump into the quarter, I think it's important for us to reflect on the progress our organization has made since we first began this leg of our journey in November of 2017. At that time, we put in place a very specific strategy focused on unlocking the true potential of Universal Technical Institute. We focused on profitably growing the business and creating durable shareholder value, all while continuing to ensure the highest levels of student outcomes and industry satisfaction.

When I became CEO in October of 2019, we further enhanced that strategy, accelerating our efforts to grow and diversify the company. As we have executed on our plan, which we internally coined our North Star Strategy, we made significant strides in improving the business. It's very rewarding to see our market capitalization near the $1 billion threshold and to have delivered an approximately 400% increase in the company's stock price. While we are certainly not finished yet, incredibly proud of how much work our entire organization and all our stakeholders have done to help us get us to this point.

Now as I'm sure you've seen in the recent headlines, macro data is indicating a weaker economy, including fewer jobs being added than expected and the unemployment rate rising. Though the economy baby lagging in certain sectors, demand for skilled collared labor across transportation, skilled trades and healthcare remains robust, with ample job opportunities and anticipated job growth across all of our focus areas over the next 10 years. When people look to reskill or upskill themselves, as a leading workforce solutions provider, we can offer them the industry aligned education they need to achieve positive outcomes as exemplified by our 80-plus percent in field employment rates across both divisions.

With that noted, let's jump into our performance for the quarter. Building on our robust growth in the first half of the year, we continue to see strong operational momentum across our key metrics, with results consistently meeting or exceeding expectations in the third quarter. We achieved nearly 16% growth in revenue to $177.5 million and a 13% increase in our average undergraduate full-time active students year-over-year, underscoring the execution on our North Star Strategy.

Net income grew to $5 million with diluted earnings per share of $0.09. Adjusted EBITDA was $18.4 million, which is an impressive 61% increase. All of these metrics landed in line or exceeded our expectations, and improved significantly compared to the prior year period. Total Student Starts increased by 5% year-over-year. This is also in line with our expectations and is positioning us nicely to achieve the higher end of our start guidance by the end of the fiscal year.

Concorde benefited from favorable timing in the quarter, particularly in our clinical start opportunities, which contributed to their nearly 35% year-over-year growth in Starts. The UTI division experienced a year-over-year decline in Starts in the quarter, primarily because of a shift in students from the last start in June to the first start in July versus last year.

Regardless, we anticipate double-digit start growth UTI in the fourth quarter and approximately 10% growth for the fiscal year. We are also happy to see that both our company and industry continue to garner attention from national media outlets such as CNBC, Forbes and The Wall Street Journal, which underscores the success of our strategic direction and the high level of demand for skilled workforce in the U.S. To that end, I want to extend my gratitude to our divisional and corporate teams for their ongoing leadership as well as our faculty, staff, partners and students.

Their hard work and dedication has not gone unnoticed, and we are proud to be recognized by these national publications. Now diving into our divisional specific highlights for the quarter. The Concorde division continues to outperform expectations across the board. The benefits from our increased marketing spend and focus on overall marketing and admissions effectiveness, which have endured throughout the year, our key contributor. Clinical programs saw very strong growth due to sonography and dental hygiene program expansion, expansion of our associate degree programs and an overall shift in start opportunities between the third and fourth quarter relative to the prior year.

We also continue to see good performance from our core and shorter cash pay programs like phlebotomy and sterile processing, which we are working to expand across the Concorde campus footprint. The expansion of our dental hygiene program in San Diego remains on track, with students beginning clinical course work later this year. We're also excited to announce the upcoming launch of the nursing program in Jacksonville, Florida in early fiscal 2025. Moreover, in Dallas, we have also been approved to expand our nursing program, which we expect to add approximately 60 average active students in fiscal 2025.

The team at Concorde is also dedicated to enhancing graduates employment opportunities and improving accessibility and affordability to the programs by expanding Concorde's partnership network. One example of a great partner is our relationship with Heartland Dental. We're thrilled to announce the expansion of our existing relationship to now include groundbreaking new initiative to open co-branded campuses that will initially serve as cash paid training centers for dental hygienists and dental assistance.

Our first location is slated to open in the fall of 2025 in Fort Myers, Florida. Under this first-of-its-kind partnership model, Heartland, the nation's largest dental service organization, or DSO, will fund the cost of construction of the co-branded campus, including durable equipment and initial supplies. Heartland will also provide financial support to students while our team will manage the campus and be responsible for training students and monitoring outcomes. Once Concorde's growth restrictions are lifted, which is targeted to be in fiscal 2026, students will also be able to qualify for Title IV funding, further increasing the appeal for students and operating leverage.

The new campus will serve as a direct feeder school into Heartland's over 1,700 locations nationwide, as their offices have significant and growing demand for well-trained dental hygienists and dental assistance. From a financial's perspective, we anticipate this location to add over $4 million in annual revenue and be solidly accretive to Concorde's EBITDA margin within 2 years after the first start and expanding from there. Finally, it's important to underscore that this campus in Fort Myers is merely the first of what we jointly envisioned to become several more over the next 5 years.

Corporate partnerships have long been a distinguishing characteristic and competitive edge for the UTI division, and we're thrilled to bring this differentiator to Concorde as well. Now turning to the UTI division. The UTI division also performed well. Overall, program expansions continue to be in the forefront of our efforts. The HVACR program expansions at the Avondale and Long Beach campuses had their first class to start in June and July, respectively. The first cohort in Bloomfield is currently enrolling students and will be starting in September, and our Sacramento program is on track to start early next fiscal year.

Furthermore, the 14 new programs we launched at the end of fiscal 2023 have sustained their encouraging growth as market demand continues to strengthen. With the nearly 700 Student Starts year-to-date in these programs, we remain confident we will comfortably exceed 1,000 new Student Starts in this first fiscal year for the programs. As discussed in previous calls, these program launches mark the beginning of expanding and synthesizing the MIAT sourced aviation, skilled trades and energy programs across UTI's divisions campuses.

The ongoing unification of the UTI and MIAT operations in Houston into a single operating campus is progressing as planned and is set to be completed by the end of this calendar year. In fact, we've completed transitioning the first wave of programs to the UTI division in May. This consolidation exemplifies our strategic focus on optimization, aiming to boost operational efficiencies, while also enhancing student experience and maintaining superior outcomes. Further, it's a key element of our broader brand unification strategy, which we recently announced.

Driven by stakeholder input and aimed at leveraging Universal Technical Institute's strong national brand, we are streamlining branding to the UTI campus brand. For MIAT Canton, Motorcycle Mechanics Institute, Marine Mechanics Institute and NASCAR Technical Institute. Although all of the division's campuses will be known as UTI by mid-2025, our partnership with some of the most revered names in transportation, skilled trades and energy continue to be a key driver of success, and we're constantly looking at new and innovative ways to expand our extensive partner ecosystem.

With the announcement of the exciting new Heartland partnership at Concorde, I thought it would be beneficial to provide a brief recap of the extensive nature of UTI division partnerships. This year, we expect to derive over $30 million in revenue from these partnerships with solid year-over-year growth and significantly more economic benefit through joint marketing and donations of products, equipment and cash.

In the auto and diesel space, we currently have 29 manufacturer-specific advanced training program instances or MSATs, with 9 different major manufacturers across the UTI campus footprint, another 3 manufacturer programs at 9 of their locations that we run on their behalf, including Mercedes and Porsche and 3 on Base Military Programs, partnering with BMW and Daimler Trucks.

We expect nearly 3,000 students to start across these programs this year, reflecting growth from increased marketing efforts and expansion of the number of program instances over the past few years. We also provide dealer training for several manufacturers and have major manufacturer programs for motorcycle and marine along with running programs for both industry and government agencies. And last but certainly not least, we have over 70 business alliance relationships that include cash, products, branding and other partnership benefits.

It's important to note that these are deep and long-term relationships, some spanning 25 years. Combined, this is an amazing portfolio of assets that uniquely positions us in the industry. And while these partnerships are currently focused in the transportation space, we see great opportunity to expand the model to include MIAT source programs centered around skilled trades and aviation, similar to what we've done at Concorde and Heartland.

Overall, I am pleased with the continued momentum we experienced across the both divisions. As a result, we're reaffirming our guidance for fiscal 2024 with the expectation that we will hit the upper end of our revenue and new Student Start ranges. Before I hand the call over to Troy, I want to spend some time looking at the bigger picture and discussing the next phases of our strategy, which we announced yesterday. With the close of fiscal 2024, we will successfully complete the first phase of our North Star Strategy.

One that has been marked by significant achievements, including the launch of 2 new UTI locations, the completion of 2 strategic acquisitions and significant program expansions, which together have nearly tripled our campus locations and more than doubled the number of students we serve across transportation, the trades and healthcare.

Financially, we will have more than doubled our revenue and seen adjusted EBITDA increase by more than 5x during this period, all while continuing to ensure strong student outcomes. With these accomplishments, we're now poised to begin Phase 2 of our North Star strategy, once again, focusing on addressing the critical need for highly-trained skilled-collared workers in America.

As you may have seen in yesterday's press release, pending regulatory approval, we plan to launch a minimum of 6 new programs annually on UTI and/or Concorde campuses beginning in fiscal 2025. We also plan to open at least 2 new campuses each year starting in fiscal 2026 through the beginning of fiscal 2029, initially with UTI campuses and then expanding the Concorde campuses once the Department of Education growth restrictions are lifted.

With the momentum built in this first phase of the strategy and the benefits from the second phase, we anticipate achieving a compound annual revenue growth rate of approximately 10% between fiscal 2024 and fiscal 2029. In addition to growth, we will be focusing on realizing efficiencies in student acquisition, facilities utilization and educational delivery, resulting in an adjusted EBITDA margin for the company approaching 20% by the end of 2029.

Our experienced team, coupled with growing markets eager to hire our well-trained industry-aligned graduates positions us well for continued success and mission fulfillment in the coming years. As preliminary approvals and site selections are complete, we'll announce locations and targeted launch dates for any new campuses and programs. In addition to our organic initiatives, we also remain active and will continue to opportunistically pursue strategic acquisitions.

With that, I'll turn the call over to Troy to review our financial results and guidance in more depth. Troy?

Troy R. Anderson
Executive VP & CFO

Thank you, Jerome. Through the third quarter, we continued to deliver positive operational and financial performance, meeting or exceeding expectations across our key metrics. In the third quarter, total average undergraduate full-time active students grew 13.4% versus the prior year period, and total new student starts increased 5% year-over-year, both in line with our expectations.

The Concorde division generated a 14% increase in average undergraduate full-time active students, while new Student Starts increased by 34.8%, partially due to timing shifts of clinical start opportunities between the third and fourth quarters relative to the prior year.

This is a function of the start frequency and cohort sizes that we are approved for by the various programmatic accreditors. Clinical starts grew a staggering 64% year-over-year in the quarter, while starts for the combined core and short programs grew 20.6%. For the fourth quarter, we expect overall Concorde start growth in the mid-single-digit range, which is notably lower than the third quarter due to the timing shift of the clinical starts.

The UTI division drove a 13% increase in average undergraduate full-time active students. For new Student Starts, we saw more students in the first start in July instead of the last start in June versus the prior year, resulting in a 12.5% decrease in new Student Starts during the third quarter. We anticipated we would see this shift in our overall Start phasing. For reference, our UTI division starts were down year-over-year in June by approximately 480 starts, but are up year-over-year by approximately 570 starts in July.

We expect UTI to show double-digit growth in starts in the fourth quarter and approximately 10% start growth for the fiscal year. For the fourth quarter overall, we now expect year-over-year growth in new Student Starts in the mid-to-high single digits, given the dynamics I described previously, and driven by baseline growth, along with the ongoing ramp of recent program expansions and new program rollouts. For the year, this would put total new student starts in the higher end of our 25,500 to 26,500 guidance range.

Turning to our financial results. Revenue on a consolidated basis was $177.5 million, reflecting 15.8% year-over-year growth and exceeding our expectations. The UTI division's revenue of $117.1 million increased 16.1% and Concorde's revenue increased 15% to $60.3 million. Both of these reflect the strong growth in the respective average undergraduate student populations along with a few points of average tuition rate improvement. For the fourth quarter, we expect low double-digit revenue growth reflecting the ongoing growth momentum in our average undergraduate student population. And as a result, for the fiscal year, we expect to be in the higher end of our revenue guidance range of $720 million to $730 million.

In addition to positive results across our student metrics and revenue, we also saw considerable year-over-year increases in profitability. Consolidated net income was $5 million compared to a net loss of $0.5 million in the prior year quarter. This translated to $0.09 of diluted earnings per share for the quarter. At the end of the third quarter, we had 53.8 million common shares outstanding. Adjusted EBITDA was $18.4 million, an increase of 60.9% year-over-year.

Our profitability permits was in line with expectations, driven by revenue, student expansion and improved operating leverage that have amplified the returns on our growth investments and optimization efforts. For net income, diluted earnings per share and adjusted EBITDA in the fourth quarter, we continue to expect significant year-over-year growth to close out the year as our profitability is seasonally most pronounced in the fourth quarter.

Overall, we expect to end the year comfortably within our guidance ranges across our profitability metrics, which are as follows: net income of $37 million to $41 million, diluted earnings per share of $0.68 to $0.73, and total adjusted EBITDA of $102 million to $104 million, which translates to adjusted EBITDA margin of 14.2% at the midpoint or roughly 350 basis points of margin expansion versus last year.

As of the end of the third quarter, our total available liquidity was $148.5 million, which includes $33 million of available capacity from our revolving credit facility. We paid down an incremental $4 million this quarter and ended the quarter with network capital of $2.8 million. At this time, we expect to pay down another $10 million to $15 million on the revolver as of the end of the fourth quarter. Year-to-date operating cash flow was $18.4 million and adjusted free cash flow was $10.9 million, both showing significant improvement versus the prior year.

Year-to-date capital expenditures were $16.8 million. Included in CapEx are the program expansion investments across both divisions, along with spending associated with curriculum and equipment refresh and upgrades, facility and leasehold improvements and IT investments. Given our year-to-date cash flow performance and estimates on profitability and cash flow for the remainder of the year, we expect to deliver adjusted free cash flow solidly within our previous guidance range, which is $62 million to $66 million and includes total CapEx spend of approximately $30 million.

We also remain confident in the initial fiscal 2025 projections we announced last quarter. We estimate revenue of nearly $800 million for the year, representing approximately 10% growth and we estimate adjusted EBITDA margin of approximately 15% or at least 100 basis points of margin expansion compared to this year. We plan to provide formal guidance for the year when we report our fourth quarter and fiscal 2024 results in November. And finally, as Jerome mentioned, we are entering Phase 2 of our North Star Strategy.

With the launch and ramp of our previously announced initiatives well underway, continued low- to- mid-single-digit baseline new student start growth and the new organic growth initiatives, Jerome outlined, we expect our next growth phase to deliver the following: approximately 10% revenue CAGR through fiscal 2029, and overall adjusted EBITDA margin approaching 20% by fiscal 2029. This would translate to revenue of approximately $1.1 billion and adjusted EBITDA of approximately $200 million in fiscal 2029. In terms of phasing, we expect revenue growth to begin accelerating in fiscal 2027 as the benefits of the initial elements of the strategy begin to be realized.

For adjusted EBITDA, we anticipate modest absolute dollar growth from fiscal 2025 through fiscal 2027 as we begin the investment period with significant margin expansion and absolute dollar growth in the later years. In support of the new growth, we expect CapEx of at least $50 million per year, beginning with fiscal 2025, funded through operating cash flow.

As we stated in previous quarters, we will continue evaluating and opportunistically pursuing strategic acquisitions and we'll adjust our longer-term expectations as appropriate if a transaction is completed or if we foresee any changes in our organic trajectory.

As always, we encourage everyone to review our press release, financial supplement and investor presentation as well as the 10-Q once it is filed, as these materials include the most current information on our consolidated and segment actual results, our strategic road map and our guidance. I'd like to thank our students, investors, partners and team for their unwavering support.

I'll now turn the call back over to Jerome for closing remarks.

Jerome A. Grant
CEO & Director

Thank you, Troy. Moving into this final quarter of the fiscal year. Our consistently strong performance has positioned us to continue making significant strides in delivering durable shareholder value. The core tenets of our mission growth diversification and optimization remain the foundation for Phase 2 of our North Star Strategy. Organically, our initiatives are focused on expanding our campuses to greenfield geographies, broadening the reach of our existing programs and adding new in-demand program offerings.

We'll also continue to [approach] new partner relationships across the programs. Inorganically, our efforts remain centered around opportunistically exploring strategic acquisition opportunities with an emphasis on enhancing our presence in healthcare and program offerings that complement Concorde. As we close out the fiscal year, we will continue to focus our efforts around ramping recent campus and program launches to further boost enrollment, revenue and profitability, enhancing marketing and admissions efforts to optimize lead generation and inquiry conversion and improving workforce and facility utilization to increase program availability margin expansion and operating leverage.

We remain steadfast in our commitment to driving growth and innovation, for both our students and our investors. We believe we are well positioned to capitalize on the increasing market opportunities to maximize shareholder value and expand the UTI brand.

Thank you for your continued support and we look forward to providing further updates on our exciting trajectory over the coming quarters. As always, we welcome the opportunity to showcase our campuses and all the exciting initiatives we're working on, so please don't hesitate to reach out if you're interested in the campus tour.
I'd now like to turn the call over to the operator for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions] The first question today comes from Jasper Bibb with Truist Securities.

Jasper James Bibb
Truist Securities, Inc., Research Division

Apologies for any background noise here. I wanted to ask about the North Star Strategy and the 20% target for '29. Just curious what that contemplates as far as the underlying segment margin potential for the UTI and Concorde segments?

Troy R. Anderson
Executive VP & CFO

Jasper, it's Troy. Thanks for the question. We're not going into the segment level detail just yet. We're setting a longer-range marker out there. The -- as far as the expectations from a growth perspective, as Jerome commented on and as you know, from prior discussions and others know. Currently, we have growth restrictions on Concorde due to the change in ownership through the Department of Education. So initially, the initiatives will be more skewed towards UTI, but we expect as we get into '27 and beyond, that we would be more evenly distributed between UTI and Concorde as far as campuses and programs. And therefore, they would kick in as we get into the latter part of the 5-year trajectory.

Jasper James Bibb
Truist Securities, Inc., Research Division

That's helpful. And just maybe a follow-up on the margin goals. I guess how are you thinking about capacity as part of the North Star plan, both, I guess, in-place capacity and potentially moving some force work online?

Troy R. Anderson
Executive VP & CFO

Sure. Yes. I mean we are expecting a consistent level of baseline growth low- to- mid-single digit that won't be equal across the footprint. Some campuses are more full than others. So -- but capacity is not a finite variable. We are constantly refining our educational delivery, our space utilization. That's a big initiative for us over the next few years is to continue getting more streamlined and being more flexible in our space utilization to continue increasing capacity.

We have shifts available at many of our campuses that we could add. So we're going to continue working to fill our facilities as much as possible with the existing programs, while we're adding new programs and upgrading our technology and getting more flexible with our delivery model. It's not as much a change, I don't think, in terms of how much is online versus on ground. We may see some evolution in that over time, bringing in some virtual reality type training aids as well, which again are less space-intensive. So there will be evolutions in some of the technology and our approach to teaching over time.

But bottom line is a measurable portion of -- we added a slide to our investor presentation, a bridge slide from the $800 million initial projection for next year to the $1.1 billion I referenced if you run the math out on the 10% CAGR and a measurable portion of that comes through organic, that baseline growth and then the new programs and new campuses.

Jasper James Bibb
Truist Securities, Inc., Research Division

Makes sense. Last one for me. I just want to ask what your experience has been with some of the [capacity] issues that have been before, I guess, at both segments and to what level that might have contributed to the time and shift of new enrollments in the quarter?

Troy R. Anderson
Executive VP & CFO

Sure. It's still not perfect. We've been working through our backlogs -- some of the -- I wouldn't say it's a direct contributor to some of that shift we saw with UTI from June to July. But because we had people so focused on working the backlogs, we didn't spend as much time working on students shifting into that last June start.

It's just not a start -- it's right before the fourth of July and students -- a lot of students are just getting out of school a few weeks before it's always taken a bit of effort to get students into that start. And if they signed up for a later start and then we tried to pull them into that start, they would have had to go back to the old fast versus the new faster. So it was just it was a lot of noise in the system. But overall, I'd say we're near normal. There are some differences. There are some things that do make it. It's actually not simpler for students and their parents. It's a little bit more complicated. But we continue to work through it and it doesn't affect us from a full year perspective by any means.

Operator

The next question comes from Mike Grondahl with Northland Securities.

Michael John Grondahl
Northland Capital Markets, Research Division

Could you kind of provide an update on maybe your marketing channels? And just at a high level how each one is doing maybe kind of strongest to strong, if you will?

Jerome A. Grant
CEO & Director

Mike, it's Jerome. So obviously, with 2 divisions and 2 different demographics in the division between transportation trades and energy and the UTI division and healthcare, the marketing groups work a little differently. In healthcare, where we're seeing some great results. We're very much focused on the 25- to 35-year olds in that population. People are making job changing decisions and looking for something more stable. And we're seeing some quite favorable rates in terms of media spend in that channel. We are too in the UTI channel. So strong results, I think, double-digit beyond our expectations of what we're seeing in terms of media generation for the same dollars that we budgeted.

And that's one of the things that's fueling the growth on the Concorde side. On the UTI side, it's really a blend, right? Is that -- in the fourth quarter, about 65% of our students are high school students who graduated this past year. And our lead generation with them is very much about doing presentations in the high schools. And with the increased number of reps that we put into the field over the last 2 years, we're seeing some nice increases.

That's one of the reasons why what Troy and I both had said is you're going to see a double-digit increase in the fourth quarter is that we'll see some stronger results also out of high school. And we are seeing that same favorability on our media spend, whether it's streaming media, paid search, paid social where, again, we're seeing nearly double-digit improvement over what we expected this year in terms of both rates and that allows us to get more leads for the same amount of money. So real strong performance out of marketing this year.

Michael John Grondahl
Northland Capital Markets, Research Division

Great to hear. And then just 1 more. Your 2 new locations in 2026. 1, roughly when do you think you'd announce those and the slide that campus size a range between 600 and 1,200. Do you think those 2 locations will be at the smaller end, the larger end? So just sort of a rough announcement date in size?

Jerome A. Grant
CEO & Director

Yes. Well, we're not yet ready to lay out the specific details of the product mix makeup of the divisions. But as we've said on past calls, we now have a lot more optionality by markets and by product mix, with the increase of -- and of course, remember, in 2026, it's really all about the UTI side because of the finishing up of the growth restrictions in Concorde. We won't be able to open a campus till '27 there.

And so we've been looking at locations that would be great for a skilled trades and aviation campus. We've been looking at locations where the new version of why we see UTI, which is a combination of transportation, skilled trades and energy. And we'd anticipate being able to utilize both of those models as quickly as possible. But we'll -- it won't be long before we'll be able to talk about at least the first location and the second will follow right after that. We'd like to get a couple of approvals in the -- under our belts from state agencies, et cetera, before we go ahead and point at a specific city and so, we don't have to speak that being very far off at all.

Operator

The next question comes from Steve Frankel with Rosenblatt.

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

Jerome, just diving into the growth restrictions, again, just the exact timing on Concorde. And is there any difference in program expansion versus new campuses as to when you can do that?

Jerome A. Grant
CEO & Director

No. The -- whenever you buy something in this space, the Department of Education likes to see 2 full years of financials of the new combined company prior to allowing you to either start new campuses or add previously unapproved programs on those existing campuses, right? And so last year and going into this year, we've been launching new programs on the Concorde campuses that were previously approved prior to the merger and launching new programs that are cash pay. We talked about things like sterile processing, et cetera, where non-Title IV new programs can be launched.

You also can launch new campuses that are not Title IV dependent. And so you saw our Heartland partnership, where we'll be opening a co-branded campus in Fort Myers, Florida prior to the growth restrictions being lifted because there are no Title IV funding requirements for that campus initially.

Once the restrictions are lifted and that we are anticipating sometime in mid-to-late 2026, we will be able to offer Title IV funding on that campus, pending approval, of course, at that time. And that's when we'll be able to start announcing new Concorde campuses and continued program expansions across the 17 -- now 18 with the Heartland Campus that will be out there. So we're getting ready. We're loading it all up. It's part of our -- it's part of our North Star strategy, and we're getting ready for it.

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

That's great. And it's really exciting, new content. Help me understand the economics given that Heartland is putting up the capital, does your share of the profits look different under that model than it does when you're the one putting up the capital. And will it change when it moves from cash pay to a combination of cash pay and Title IV?

Troy R. Anderson
Executive VP & CFO

Yes, those are good questions, Steve. This is Troy. The -- in our -- in the appendix in our investor slide, we have a dental hygiene illustrative program launch and time horizon. And so that campus will be dental hygiene and dental assisting. So it's not exactly representative of what will be in that campus. But generally speaking, the ramp of the program will look similar to that. We will run the program. We are administering the student finances, et cetera. Heartland will be providing financial assistance to the students, both in the form of scholarships as well as backing the student loan, similar to what Department of Ed and Title IV, but there'll be private loans.

And we keep all the economics once it's open. So the deal is we run it. We staff it. We're responsible for all the regulatory requirements, et cetera. We'll monitor outcomes. We'll ensure we're meeting the outcome standards and all the things required around that. And then we keep the economics there. The economics will change once we are Title IV eligible as we are offering more of a discounted because it's cash pay and dental hygiene is a average $85,000 or so 2-year program, the assisting obviously, much less expensive, but once it will be discounted relative to that under the cash pay model, and then we'd flip back to more of our standard pricing for dental hygiene and dental assisting post-Title IV. That cover all your...

Steven Bruce Frankel
Rosenblatt Securities Inc., Research Division

One more question. That's really helpful. And then on the North Star next phase, you talked about 6 program expansions per year. Is that a total of 6 or it's 6 across a number of campuses?

Jerome A. Grant
CEO & Director

Well, it's a minimum of 6 and thrilled that Troy, let me put the word minimum in there. It's a minimum of 6 and it is across both divisions and it's an obviously, we won't be launching as many programs as in Concorde earlier, but over that time period, we just wanted to put a marker out there that you could see.

Obviously, in the later years, we'll be looking at being more aggressive across both of the divisions. There's still a lot of opportunity to bring the MIAT programs onto the UTI campuses, which will be most of what's initially launched in '25, '26, '27.

And then the opportunity to bring new programs on to the Concorde campuses is something that we're looking forward to specifically nursing because nursing is only on a few of their campuses right now. So that's what's built into that.

Operator

The next question comes from Raj Sharma with B. Riley.

Rajiv Sharma
B. Riley Securities, Inc., Research Division

Congratulations on the good results. So my question is on the Starts. You had guided overall Starts to about 5% for Q3. The overall, they seem to be in line. Obviously, the UTI is lower -- what you've been guiding?

So can you speak on the trajectory and the environment of enrollment here and you're seeing is the shift, the shift seems to be about 580, 600 students in the June, July shift? And are you making up clearly from your guidance, you're saying you're going to hit the top line. So you are making up more than the students that you would have lost in Q3? And also, how much of the Starts shift could you have anticipated? Or is this something new?

Troy R. Anderson
Executive VP & CFO

Thanks for the question, Raj. It's Troy. The -- we anticipated it. Is it exactly what we anticipated? Probably a little bit more than we anticipated, but we saw it building as we were working last call 90 days ago, beginning of May. We have pretty good insight into the funnel, and we could see the enrollments piling up more in July than again, in that last June start to the question I answered earlier, that's just a hard start to get high school students specifically really focused on, given the just finishing school, given going into July 4 holiday, et cetera, et cetera.

So anyway, we put a lot of effort into trying to fill that start in prior years and our resources were really focused on working down the fast simplification rollout and the backlog associated with that. So it is entirely made up in July. In fact, it's more than made up in July for UTI specifically.

And again, we see approximately 10% for the full year will be double digit in the fourth quarter, it was, I think, 16% and 17% in Q1 and Q2. So it's 100% a timing shift and literally last start in June to first start in July. And again, we anticipated that. On the Concorde side, just complete the thought. We have a little bit of a different dynamic, where the certain clinical programs have more starts in the third quarter, and they don't have starts, so they have fewer starts in the fourth quarter. And so we saw that significant uplift in the Concorde clinical starts in the third quarter.

And again, overall, though still very strong growth for the year for Concorde just timing. And you're going to hear that more from us. We didn't spend a lot of time on that last year. And we didn't have the year-over-year compares. And really until the last quarter, but those clinical starts are very uneven. So any given quarter, you're going to hear from us a really strong quarter or even a decline quarter on the clinical side with Concorde.

Jerome A. Grant
CEO & Director

Raj, I think the one thing that Troy alluded to in his comments that on the whole notion of that June, July piece was the new FASB was for students who started July 1 and beyond. And so all of these thousands of students went through the new FASB process in April, May, June, that painful process that was late and filled with errors, quite frankly. And we got them settled in with the new process in July. And traditionally, what we do then is then start moving them back to June to get them started a little early, help us with our capacity, help us with a whole number of things.

This year, because it was the brand-new FASB, that would have meant asking their families to go back and fill out the old FASB again, so that we could get them started the last week in June. And after what they had gone through on the new one, we just weren't going to do that. We were afraid we'd potentially lose them or something like that. So as Troy said, more than made up in July, we're happy with the trajectory we're having. But this was a particular year because of the FASB change. Can we say that that's because of the delays? No. But we can't say it's that it's because of the complications and because of the transition.

Rajiv Sharma
B. Riley Securities, Inc., Research Division

Got it. Got it. That's very helpful. And then on the North Star strategy, the time line on the new campuses, I know you haven't announced the dates, that's relative to ones that are the new ones that are already on track. And then I just want to understand, you were kind of soft guiding to a 10% CAGR on the revenues.

But if you take a mid-single-digit start growth and a tuition increase of what you've had in the past. I mean that alone accounts for about 8%. So if you add -- I guess what I'm getting to is the 10% CAGR a conservative sort of number if you have the 2 new campuses every year with 6 new programs.

Jerome A. Grant
CEO & Director

Well, a couple of things. #1, generally speaking, our organic growth, we never predicted to be much more than low- to- mid-single digits. And therefore, no, we're not -- we don't load in 5% organic growth in a model. It's below that. And so -- but the way to look at that would be the low- to- mid-single digits, adding 6 programs, adding 2 campuses, gets you to right around that 10% mark.

And I think one of the differences between what we've been saying and what we're seeing now with more of the details in place, is that one of the things we've been seeing pretty clearly through the quarters is that we think the combination of UTI and Concorde is a business that's somewhere in the mid- to high teens in terms of EBITDA. And now we're saying we feel it's closer to 20%. And that's an improvement of what we've seen in terms of as we move forward.

Troy R. Anderson

Executive VP & CFO

Yes. The one thing I'll add, Raj, is that if you think about the trajectory, so '24 to '25, we've already said approximately 10%. We probably -- because the program -- any program launch at this point in '25 will be very late in '25. And the campuses would be we're hopeful maybe 1 in the second quarter of '26 and then 1 in the third quarter, early fourth quarter, but not a huge amount of impact on '26 and then again, programs sort of phasing in.

So we probably pulled back a little bit in that '26, '27 timing and then it accelerates, right? So we're not necessarily 10% every year. Maybe it's 10% and then 7%, 8%, 9% and then 11%, 12%, it starts accelerating in that '27, '28, '29 time horizon to get to that 10% CAGR.

Operator

The next question comes from Eric Martinuzzi with Lake Street.

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

Just interested in your thoughts on the most recent unemployment report job growth a little bit below what people were expecting or employment a little bit higher. That's the macro. But from your perspective, on the micro side, are you seeing anything not necessarily with your high school pipeline, but with your adult learner pipeline?

Jerome A. Grant
CEO & Director

So Eric, good to hear from you. It's Jerome. #1, one of the things we've said is when it starts to move, there's usually a lag somewhere in the in 90 to 160 days when you start to see -- you potentially start to see impact when the unemployment rate starts to rise. And so we're seeing the signaling out there that things are tightening up, but it's too new to be able to point to a number and say that.

We are seeing that our interest is on the rise. We continue to see strong double-digit growth of our inquiries and our conversion rates are very, very strong. So we feel good about that. But I can't yet call that what we just saw published has already seen the uptick. It's just a leading indicator, which is a strong indication in our part of the market that things tend to move in that direction.

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

Got it. As far as the North Star, this is an organic plan, this Phase 2. Curious to know what is your expectation? And I know it can change based on a single phone call. But M&A is part of that build from $800 million to $1.1 billion. Is there anything that closes that gap significantly that's maybe somebody you've had conversations with that have started to heat up?

Jerome A. Grant
CEO & Director

Well, first of all, I just want to make sure you're clear. M&A has nothing to do with the $800 million to $1.1 billion. It is an organic plan that we put out in the market. So everything that we signal are things that we've been doing very successfully for the last 5 years, opening new campuses, starting new programs, becoming more efficient with our marketing and the things that do on margin expansion, et cetera. So any M&A activity would actually be additive to what we're talking about. So just want to put that qualifier in there that none of it is assumed in the plan.

And I think I could probably only reiterate where we are right now, which is we have been having conversations with a number of folks. But the -- nothing to talk about right now. And also, I think my -- the way I look at it is we want to be very, very opportunistic but very strategic in our thinking. We are looking for things that complement what we're doing, whether it's from a geographic perspective or from a program perspective, with particular attention continuing to be focused in health care.

We had said before that nursing is a strong focus of where we'd like to see ourselves move both organically once the growth restrictions have been lifted, but inorganically in the short term. So nothing to announce right now, but we remain active in conversations, and we'll let you know if anything percolates to that point.

Operator

This concludes our question-and-answer session. I would like to turn the conference back to Jerome Grant for any closing remarks.

Jerome A. Grant
CEO & Director

Thank you very much. And I appreciate those great questions and the attention. Sorry, we took a little more time. We wanted to spend a little more time talking about our longer-range plans. With that, we'll close the call. We look forward to meeting with all of you over the next couple of days and reporting back again in 3 months. Thanks, and have a great evening.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.