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Market Intelligence

Universal Technical Institute, Inc. NYSE:UTI

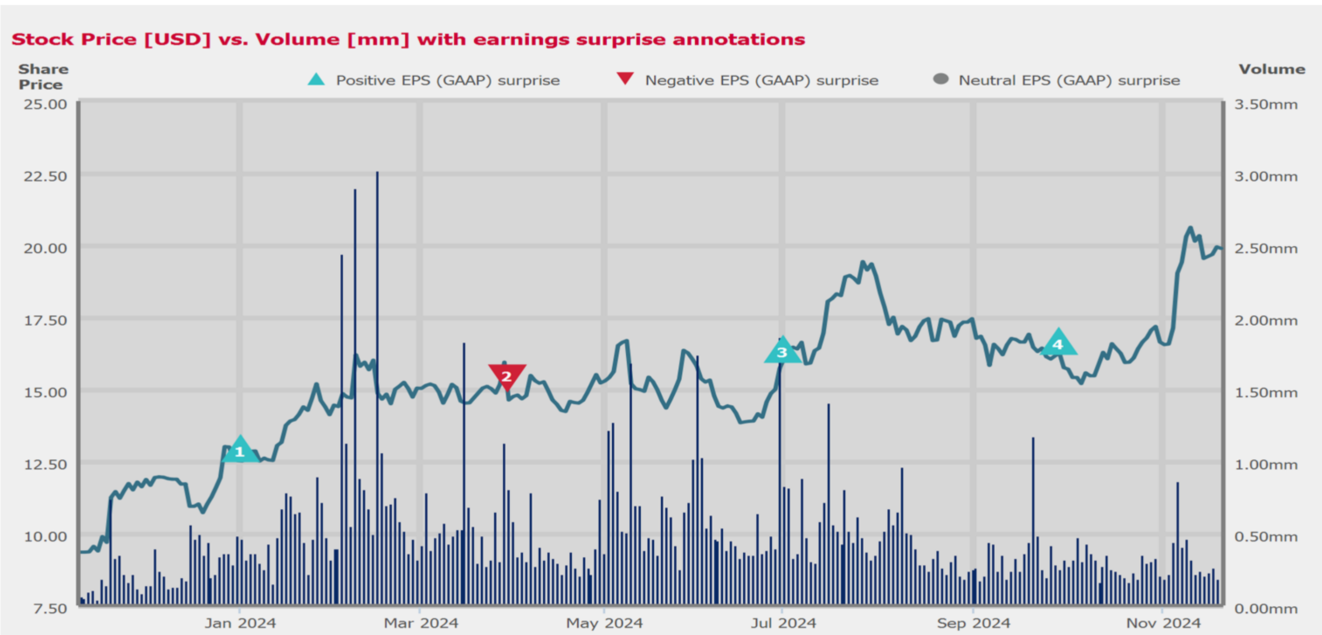
FQ4 2024 Earnings Call Transcripts

Wednesday, November 20, 2024 9:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2024-			-FQ1 2025-	-FY 2024-			-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	0.30	0.34	▲13.33	0.23	0.71	0.75	▲5.63	0.94
Revenue (mm)	191.24	196.36	▲2.68	192.77	727.57	732.69	▲0.70	798.39

Currency: USD
Consensus as of Nov-07-2024 11:59 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2024	0.04	0.17	▲325.00 %
FQ2 2024	0.15	0.14	▼(6.67 %)
FQ3 2024	0.06	0.09	▲28.57 %
FQ4 2024	0.30	0.34	▲13.33 %

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Call Participants

EXECUTIVES

Christine Kline
Interim CFO, VP & Chief Accounting Officer

Jerome A. Grant
CEO & Director

Matthew Kempton
Vice President of Corporate Finance

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Alexander Peter Paris
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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

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

Presentation

Operator

Good day, and welcome to the Universal Technical Institute's Fourth Quarter and Full Year 2024 Earnings Call. [Operator Instructions] Please note, this event is being recorded.

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

Matthew Kempton
Vice President of Corporate Finance

Hello, and welcome to Universal Technical Institute's Fiscal Fourth Quarter and Full Year 2024 Earnings Call. Joining me today are our CEO, Jerome Grant; and Interim CFO, Christine Kline. Following our prepared remarks, we will open the call for your questions. A replay of this call, its 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 that are 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 non-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. We had a very strong year, which was in no small part motivated by our relentless dedication to building a future-ready workforce solutions provider and enhancing our program offerings to meet the demand in critical industries.

As we continue to execute on our growth, diversification and optimization strategy, we delivered improvements across all key metrics in our fiscal 2024 and continue to meet or exceed our expectations. For that accomplishment, I'd like to take a moment to sincerely thank our divisional and corporate teams, along with our partners and students, for their exceptional efforts and their dedication to delivering strong results, time and time again.

Momentum continues to build as revenues for the fiscal year grew roughly 21% year-over-year to $733 million. Average full-time active students increased 10% year-over-year for the fiscal year. Net income increased to $42 million with diluted earnings per share of $0.75. Adjusted EBITDA improved an impressive 60% to $103 million. Total new student starts increased year-over-year by roughly 19% for the fiscal year. These start results exceeded the upper end of our guidance for the year and were driven by strong year-over-year start growth for both the Concorde and UTI divisions.

Our ability to achieve this growth in 2024 was largely due to our ongoing commitment to 3 core expansion initiatives, which include the following: number one, increasing the capacity of our current programs on campuses such as adding dental hygiene operatories at Concorde and additional welding booths at UTI; number two, adding programs from our current portfolio to more of our existing campus locations. Two great examples of this were the addition of the aviation program at Long Beach and HVACR at Avondale this past year; and number three, launching brand-new in-demand programs that we do not currently offer.

In addition, we're focused on optimizing our workforce and facilities to support both future program and margin growth and to improve the efficiency of our operations. We also adjusted our marketing and admissions investments to accelerate lead generation and convert inquiries. Overall, we're proud of the meaningful growth we delivered across the board and our ability to consistently achieve or outperform our guidance.

We're also pleased with the continued positive recognition for both our industry and company in national media outlets. For example, CNBC recently published 2 articles highlighting the increasing number of individuals who are choosing blue collar for what we call skilled collar jobs over traditional college paths. Both stories emphasize the financial stability and fulfilling careers these trades offer. This is a trend that appears to be accelerating in pace.

Several of our UTI and Concorde graduates were featured in these articles, showcasing their success in our role as a vital resource for equipping students with the necessary skills to thrive in in-demand industries. There is certainly a positive and growing sentiment for schools like UTI and Concorde across the macro environment. This demand for skilled collar workers and the promise of a balanced playing field for our industry in Washington, combined with our excellent student outcomes, gives us added confidence to reach our long-term targets.

Turning to our division-specific highlights for 2024. Our Concorde division continues to deliver strong results with robust year-over-year growth. In the division's first full fiscal year under our ownership, Concorde has certainly surpassed our overall growth expectations. We saw strong growth across all Concorde's programs, including clinical, core and our new shorter cash pay programs as they continue to ramp. This growth is resulting from our increase in marketing investments throughout the year and effectiveness of our admissions team.

As far as Concorde's program expansion strategies, the Dallas nursing program capacity increase is still anticipated to begin in fiscal 2025. This effort will increase our capacity by an additional 60 students. Increasing the capacity of our dental hygiene program in San Diego is also progressing well. And finally, our new nursing program in Jacksonville, Florida also remains on track to launch in mid fiscal 2025.

Turning now to partnerships. As we mentioned last quarter, we expanded Concorde's long-standing partnership with Heartland Dental with a plan to construct a new co-branded campus. This campus, which will initially be launched on a non-Title IV cash pay basis, will serve as a training center for dental assistance and dental hygienists and will feed directly into more than 1,700 Heartland locations nationwide. When Concorde's growth restrictions are lifted, which is targeted for mid-2026, we will transition to also offering Title IV funding as well.

This partnership not only help satisfy the significant and increasing demand for trained dental hygienists and dental assistants. It also further optimizes our cost because Heartland is funding the construction of the campus, including initial supplies and durable equipment as well as providing students with financial support. To reiterate, we anticipate this campus will add more than $4 million in run rate revenue as well as contribute to Concorde's EBITDA margin expansion as it ramps. We look forward to keeping you updated as this partnership progresses and as we are able to launch additional campuses together over the next 5 years.

Now on to our UTI division. The UTI division also continued to deliver consistent year-over-year growth, driven by expanded programs and increasing market demand for skilled collar workers. Reflective of this market traction and our growth strategy, UTI generated a double-digit year-over-year revenue increase in 2024. UTI starts have steadily increased throughout the year, and we expect this momentum to continue in 2025 with the first 2 large UTI starts in this new fiscal year performing quite well. Our HVACR programs continue to ramp nicely across campuses in Avondale, Long Beach and now Bloomfield, with the program in Sacramento set to begin in the coming months, pending regulatory approvals.

The 14 programs we launched in 2023 as part of synthesizing and expanding the MIAT sourced aviation, skill trades and energy programs across the UTI campuses are continuing to perform well, and the unification of the MIAT Houston and UTI operations are on track to be finalized this quarter. As we previously stated, by mid-2025, our MIAT Canton and Houston campuses, the Motorcycle Mechanics Institute, Marine Mechanics Institute and NASCAR Technical Institute campuses will all be known as UTI. These brand consolidations will help us enhance our operational efficiencies as well as leverage the renowned Universal Technical Institute name to further our outreach to potential students and industry partners.

As part of our commitment to prepare graduates for industry with ever-changing technology requirements, we recently added our EV programs to our Avondale and Orlando campuses. These new courses are the same EV and hybrid training that are already available in our 3 California campuses. The enhanced curriculum is now part of the core automotive program on 5 UTI campuses with further rollouts planned.

Additionally, with respect to our EV strategy, we updated our Ford FACT and BMW FastTrack Manufacturer-Specific Advanced Training program instances, or MSATs, to include the EV curriculum. All 7 UTI campuses offering BMW FastTrack and all 9 campuses offering the Ford FACT program are now teaching the new EV curriculum using the latest EV vehicles provided to us by BMW and Ford. Collectively, our relationships with both BMW and Ford are decades long. In fact, we recently celebrated 25 years of our Ford program, which graduated more than 29,000 students since its inception.

Finally, underscoring our commitment to the highest standards of quality, I'd like to mention that both Dallas and Sacramento campuses were named Schools of Excellence by the Accrediting Commission of Career Schools and Colleges. This is ACCSC's highest honor, and only 19 schools earned this award for the 2023-2024 accrediting period. These accolades reinforce our dedication to excellence in education and our positive impact on the communities we serve.

Building on this great work being done by both of our divisions, I'll now introduce our fiscal 2025 guidance, which Christine will discuss in more detail in just a bit. Revenue is expected to be between $800 million and $815 million, reflecting 10% year-over-year growth. We now anticipate adjusted EBITDA to be between $120 million and $124 million, and we expect new student starts to be ranging from 28,000 to 29,000.

With fiscal 2024 now concluded, we are officially entering Phase 2 of our multiyear North Star Strategy. I'd like to take a moment to reiterate what this entails. Starting in fiscal 2025, we previously announced that we plan to launch a minimum of 6 new programs each year on Concorde and/or UTI campuses subject to the required regulatory approvals. We also outlined our plan to open at least 2 new campuses annually beginning in fiscal 2026.

To that point, I'm pleased to announce that we are finalizing our next 3 planned campus locations targeted for launch in 2026. One will be our first Concorde Heartland campus in Fort Myers, Florida. The second is a skilled trade and aviation campus in a greenfield city. And the third will be an optimized UTI campus with a comprehensive set of program offerings in a state that is new to UTI. We are also happy to announce that we plan to launch 9 full-length program expansions across our existing campus footprint, and 10 cash pay short courses are lined up to launch on the Concorde campuses in 2025. We look forward to sharing more precise details on these campuses and programs in the very near future.

We expect these initiatives will serve as the fuel for our previously announced compound annual revenue growth rate target of approximately 10% between 2024 and fiscal 2021 with an adjusted EBITDA margin for the company approaching 20% by the end of fiscal 2029 as our optimization efforts mature further. You can find more information on this strategy in our investor deck and on our website. We're also continuing to opportunistically evaluate and pursue strategic acquisitions. We would, of course, adjust these longer-term targets as appropriate if a transaction is completed.

With that, I'll turn the call over to Christine Kline, our Interim CFO, to review our fiscal 2024 financials. Christine?

Christine Kline
Interim CFO, VP & Chief Accounting Officer

Thank you, Jerome. I'm pleased to share that we delivered another strong quarter and year, meeting or exceeding our expectations across all guidance metrics for fiscal 2024.

To summarize our operational performance, we recorded 26,885 total new student starts for fiscal 2024, exceeding our expectations with 11,492 starts coming from the fourth quarter. As we've mentioned previously, Q4 is a seasonally high start quarter across both of our divisions, and each delivered solid outcome. In the fourth quarter, total average full-time active students grew 11% year-over-year, while total new student starts increased 10.6%. For the full year, average full-time active students increased 10%, and new student starts increased 18.9% compared to the prior year. The year-over-year growth for both the quarter and full year were driven by increased yield from the tuning of our marketing and admission spend as well as new program expansion initiatives reaching steady state and strong contributions from Concorde.

The Concorde division drove a 13.8% and 10.7% increase in average full-time active students for the fourth quarter and full year, respectively. New student starts increased 13.7% in Q4 and 39.3% for the full year. These increases are a result of double-digit growth in shorter cash pay programs like sterile processing and phlebotomy as well as growth across core and clinical programs, which benefited from 2 large starts in Q4.

The UTI division generated a 9.2% increase year-over-year in average full-time active students for the quarter and a 9.5% increase for fiscal 2024. New student starts grew 8.7% year-over-year in the fourth quarter and 6.7% for the full year. Notable contributions to this growth were the skilled collar programs added to UTI campuses in the current and prior year as well as the ongoing optimization of existing programs throughout our portfolio.

Turning to our financial performance. Fourth quarter revenue on a consolidated basis increased 15.3% to $196.4 million. Concorde contributed $65.8 million, an increase of 19.7% over the prior year quarter, while the UTI division contributed $130.5 million, an increase of 13.2% over the prior year quarter.

For the full year, consolidated revenue grew 20.6% to $732.7 million, above the upper end of our guidance range. Concorde contributed $246.3 million, an increase of 38.3% over the prior year, while the UTI division contributed $486.4 million, representing a 13.3% increase over the prior year. Concorde benefited from the inclusion of 2 additional months of revenue during 2024 compared to 2023, given our December 1, 2022 acquisition date.

From a profitability standpoint, consolidated net income for the fourth quarter was $18.8 million or $0.34 per diluted share and $42 million or $0.75 per diluted share for the full year. Adjusted EBITDA for the fourth quarter was $37.3 million and $102.9 million for the full year. Both net income and EPS exceeded the upper end of our guidance range, and adjusted EBITDA was in the middle of our projected range. At the end of the year, we had 53.8 million shares outstanding.

Total available liquidity at the end of the quarter was $230.9 million, including $69 million of remaining capacity on our revolving credit facility. We also paid down an additional $11 million on our revolver in Q4 and ended the year with positive net working capital of $17 million. Note, as previously filed in an 8-K, in September, we increased the capacity of our revolving credit facility by $25 million to $125 million with an additional accordion feature, which provides us with greater financial flexibility as we lean into Phase 2 of the North Star Strategy in fiscal 2025.

Fiscal 2024 operating cash flow was $85.9 million, and adjusted free cash flow was $73.5 million, which significantly exceeded our full year guidance range of $62 million to $66 million due to outperformance of net income and lower capital spend than projected. Year-to-date capital expenditures were $24.3 million, slightly below earlier projections for the year, primarily due to project timing and improved procurement savings.

As we've previously stated, CapEx includes investments for our program expansion initiatives across both divisions as well as spending associated with curriculum and equipment refresh and upgrades, facility and leasehold improvements and IT investments. Given our consistent execution throughout fiscal 2024 and in conjunction with our detailed organic growth strategy and the momentum we are carrying into this new year, we are confident in the formal guidance ranges we are providing for fiscal 2025.

Starting with revenue. We expect to generate between $800 million and $815 million for fiscal 2025 or approximately 10% year-over-year growth at the midpoint. This reflects a strong increase in average full-time active students from the program additions across both divisions with total new student starts expected to range between 28,000 and 29,000. For the first quarter, we expect high single to low double-digit revenue growth with mid-single up to double-digit growth in the remaining quarters, with Q2 being the lowest growth period and Q4 expected to be the highest. For starts, we anticipate mid-single-digit start growth each quarter throughout the year, though Q2 should be somewhat higher.

For fiscal 2025 net income, we expect a range of $52 million to $56 million and diluted earnings per share ranging between $0.93 to $1.01. Net income growth will be in the low to mid-double digits in the first 2 quarters with outsized growth coming in Q3 and Q4. We expect 2025 full year adjusted EBITDA to range between $120 million and $124 million or around a 19% year-over-year increase at the midpoint. We anticipate generating modest growth in the first quarter with double-digit increases each quarter thereafter and the largest growth in profitability occurring in the second half of the year. The increase is driven by the significant growth in revenue, optimized operations as well as the launch and maturity of additional programs in each division.

An important item to highlight is that beginning in fiscal year 2025, we will start the first wave of growth investments for our new programs in campuses as Phase 2 of our North Star Strategy gets underway. Given the projected ongoing nature of these investments, we will no longer report them as onetime adjustments in our non-GAAP adjusted EBITDA calculation. We expect to incur approximately $8 million in growth investments related to our North Star Strategy during fiscal 2025.

We anticipate 2025 full year adjusted free cash flow to range between $58 million and $62 million, which assumes approximately $55 million in CapEx spend. This is reflective of the increasing growth investments required to fund incremental programs and campuses as part of our North Star road map. As with adjusted EBITDA, given the continuous and ongoing nature of these growth investments going forward, we will no longer report them as onetime adjustments for our non-GAAP and adjusted free cash flow calculation. We expect the bulk of our cash generation and year-over-year growth to materialize in the fourth quarter, consistent with our historical cadence.

As always, in addition to this earnings call transcript, we encourage everyone to review our press release, financial supplement and investor presentation as well as the 10-K 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. Thank you to our students, team, partners and investors for their ongoing support.

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

Jerome A. Grant
CEO & Director

Thank you, Christine. The Universal Technical Institute and Concorde Career College divisions are both uniquely positioned and already have capitalized well on the increasing demand for skilled trades and health care education.

Our results this past year demonstrate both the effectiveness and the successful conclusion of our first phase of our North Star Strategy, which revolved around our core tenets of growth, diversification and optimization. As we look ahead, we're excited to begin the next phase of our journey. Our focus remains on expanding our reach to meet growing student demands in new geographies, broadening the scope of our programs to include more high-demand fields and optimizing our operations to drive efficiency and enhance outcomes.

Entering fiscal 2025, our organic initiatives continue to revolve around, one, working towards expanding our campus footprint into greenfield geographies in a variety of ways such as piloting our first skilled trades and aviation campus and launching an innovative co-branded campus; two, broadening the reach of existing programs and a new in-demand offering. As noted in my earlier remarks, we have at least 19 more programs we are currently preparing to launch in 2025 across 2 divisions; and three, growing our partner network and deepening industry relationships as modeled by our co-branded Heartland campus. Inorganically, our efforts remain focused on opportunistically exploring strategic acquisition opportunities with an emphasis on enhancing our presence in health care with program offerings that will complement Concorde.

Moving into our 60th year, the company stands stronger than ever. We're proud of our legacy, and we're equally excited about the future. The need for skilled collar professionals is robust and growing. Our momentum is building, and we are uniquely positioned to be a leader in training and supporting the next generation of skilled collar talents. With our consistent ability to meet or exceed expectations, a strong balance sheet and a clear road map for growth, we are confident in our ability to deliver lasting value for our shareholders, students and partners.

2024 was a strong year, and 2025 will be a year marked by the reignition of our growth agenda. We appreciate your ongoing support and look forward to sharing more about our exciting progress in the quarters ahead. As always, we're happy to host campus tours and provide a closer look at the impactful initiatives we're pursuing. So please feel free to reach out if you'd like to visit.
I'd now like to turn the call over to the operator for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Mike Grondahl with Northland Securities.

Michael John Grondahl
Northland Capital Markets, Research Division

Congrats on a successful year. My first question just has to do -- Jerome, you talked a little bit about macro tailwinds, and those seem to have picked up. Is there any way you could kind of correlate the fall of '24 to the fall of '23 or the fall of '22, just so we can get a sense of the strength there? Hello?

Jerome A. Grant
CEO & Director

Mike?

Michael John Grondahl
Northland Capital Markets, Research Division

Yes.

Jerome A. Grant
CEO & Director

Okay. You can hear -- I'm muted. Sorry. Thank you. I'm sorry. Our line was muted still. So I heard your question. So correlating '22, '23 and '24, if you remember back to '22, we had just come through that big spike in inflation in April of '22. And the fall of '22 was somewhat of a disaster, really. I think enrollments were down double digits in the fall of '22. People were thinking very, very seriously about what they weren't going to invest in versus what they were. The recovery period that went all the way through '23 crescendoed in the fall of '23, and we started to see things pick up. I think back then, I was using the term the new normal. People knew that gas was $4 a gallon and rent has gone up, and they were starting to move on and think about where life would lead.

As we moved into 2024, what we've seen, and we've seen it in our leads and our conversion rates and our enrollments throughout the year as they continue to pick up, is that we really are seeing people thinking about this area of the world, which is skilled collar workers, skilled trades workers as a viable profession and thinking more practically post high school about what they're going to do. I think you'll see that -- you saw the trends potentially if you saw labor statistics and some of the popular press out there that freshmen enrollments as a whole, meaning those students who are coming straight out of high school, were down this fall, yet certificate and short programs were up. And I think we benefited from that in the fall of this year. Will it continue? I'm not an economist, but we are seeing a more favorable environment.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. And then just a follow-up. You mentioned leads are up, conversions up. You said you accelerated some investment in lead generation. Any update on the marketing funnel? It seems like you're having a lot of success there, too.

Jerome A. Grant
CEO & Director

We are. And I think one of the things I commented on throughout the year is that we -- this is the first year of really getting behind the wheel in terms of leading the Concorde group from where they were owned before to where they are now. And so we accelerated our investment into Concorde marketing and their admissions group in a sense to test the elasticity of what we've seen. And we've got some great results of Concorde. The numbers we shared with you for Concorde were beyond our expectations. And so we continue to invest throughout the year in marketing, actually adding a little more money in Q4 to pump ourselves into Q1 and Q2 and money that we hadn't initially thought that we were going to do. And we're already seeing some great results, as I noted in my comments, on both UTI and Concorde in Q1.

Operator

And the next question comes from Eric Martinuzzi with Lake Street.

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

Yes. The bump up to the 2025 guide, taking that from -- I think it was nearly $800 million, up to a midpoint now of around $808 million. Is that a result of this -- primarily the result of this Concorde investment sort of in the -- at the year-end of FY '24? Or is it the rolling on of the incremental new programs that you talked about? What's driving that upside guide for '25?

Jerome A. Grant
CEO & Director

Well, it's actually both, right, is that we are a bit more bullish on our ability to bring Concorde up further than initially in the year when we started looking at 2025. And then as you heard is that 9 full length programs and 10 short courses or short programs that we're bringing in exceeded the sort of minimum 6 that we had laid out for that. So if I were to cut the numbers in half, it's probably half and half. A few hundred more Concorde starts than we anticipated earlier in the year we think we can drive and then the same out of those new programs.

Eric Martinuzzi
Lake Street Capital Markets, LLC, Research Division

Got you. Okay. And then I can definitely see a bump in your share price recently due to the results of the election. But what's your thinking on how quickly -- or maybe you don't think you benefit at all in the medium term here. But with the Republicans taking control here, is there a time line in your mind for a potential benefit in the fundamentals of UTI?

Jerome A. Grant
CEO & Director

Yes. Well, first of all, I'll say what I always say in these situations, which is we don't control what goes on in Washington. We control what goes on, on our 30-some campuses around the country. And we're going to continue to focus on superior outcomes, graduating around 70% of our kids, getting 80% to 90% of them jobs in the first year, the things that keep us above the fray of any of the view of Washington.

Yes, there was a bump in the stock. I think sentiment out there is that with the rhetoric of potentially dismantling the Department of Education and the like, I think there was some sentiment that moved the stock in that direction. Generally speaking, what we're really looking for is something that we've been talking about for quite a while, which is I think we're moving into a phase where we'll see an even playing field, where the tax status of the educational institution isn't the primary issue, but the outcomes are. And if that shift in mindset materializes over the next year or so, we should continue to see favorable environment coming out of Washington.

Operator

And the next question comes from Raj Sharma with B. Riley.

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

Congratulations on exceeding the guide and -- on the fiscal '25. I wanted to follow on, on the earlier caller on the Trump administration -- Trump win. Any change you expect as a corporate in your SG&A expenses? Any change in lobbying efforts? Or do they get sort of pushed up more? And I know you already commented on do you expect any less headwinds or on any regulatory oversight, but the SG&A push up, your expenses.

Jerome A. Grant
CEO & Director

I'm not anticipating nor have I budgeted for a significant change in our SG&A associated with this. One of the dynamics there, Raj, is that when the Department of Education is in the hands of the Democratic Party, there tends to be less action at the state level that goes on. And then when the Department of Education is in the hands of the Republican Party, there tends to be more action at the state level, especially the blue states, right? So California, Illinois and New Jersey. And so it really just shifts the lobbying emphasis, I think, from central government to states.

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

Got it. And then any other potential areas to add? Are you looking at -- I know that you had mentioned nursing in the past or to add to the Concorde. Any thoughts around that?

Jerome A. Grant
CEO & Director

Well, we're continuing to look at program areas at Concorde. Yes, we have been talking about nursing. And in my comments, I said when we think about both organic and inorganic means, we are looking for programs that would complement what's already in the allied health and -- excuse me, and dental focus that is at Concorde. And we're continuing to explore what might be there.

The short course notion is born out of that. There is an opportunity for things like phlebotomy and sterile processing to have some quick certificate programs. They get people out in the market working more quickly. We are looking at other health care areas that we may be able to enter, whether it's home health or even veterinary and things along those lines. We're studying them. But we've got nothing planned for launches in 2025 outside of what's already on the docket.

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

Got it. And then on the fiscal '25 guidance, Jerome, the free cash flow guidance again seems sort of robust in the use of that cash earlier on. I think -- are you still at the same plan of adding one new campus a year and certain X number of programs? Is that still the plan?

Jerome A. Grant
CEO & Director

No. As I outlined in the comments, we're actually going to launch 3 campuses in 2026, the previously announced Concorde, Heartland co-branded campus in Fort Myers. We have one skill trades aviation and energy campus that's going to open. And candidly, the only reason we didn't lay out cities yet is we like to get a lease sign in at least one of the -- 1 or 2 of the regulatory hurdles. That's something that should happen in a matter of weeks, really. And therefore, we'll be able to get locations out of those.

And the way to look at it is our plan is to -- on the UTI side, our plan is to basically open one campus every 6 months in '26. So on early in January and then one in the summer months to make sure that we're spreading out our work, our supply chain, our construction costs and things along those lines. And so we'll look at '27 soon. That's all we're going to do in '26. But what we've seen is pretty much equal opportunity on both the UTI and the Concorde side for opening campuses. And I think you can expect a pattern similar to what you see in '26 as we move forward.

Christine Kline
Interim CFO, VP & Chief Accounting Officer

And Raj, this is Christine. I think I would just reiterate, we've said in previous calls that it takes about 18 months to turn a warehouse into a campus. So if you think about that, the spend would certainly have to start in '25, which is where the $55 million in CapEx comes from.

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

Got it. And then just lastly on the starts guide. Is that -- you had pretty robust starts growth in '24. The '25 guide seems a little conservative. Is there any change in that? Or are you seeing any change that's making you do that? Or is that just [part for the quarter]?

Jerome A. Grant
CEO & Director

Well, there's -- well, we don't like to overpromise right out of the gate. That's one thing. But there is sort of a dynamic shift between '24 and '25, one being in late '23, we launched those 14 full-length UTI programs and 4 Concorde programs also at the top -- 6, actually. And so as those come to peak in '25 and hit the pretty much run rate enrollments, you start to see a decrease in the increase factors of those programs we launched in '23. We launched fewer programs in '24. And as you can see, we're reigniting it in '25 with the number of programs we're launching. But most of those won't come out until mid late in the year. So there will only be a couple of hundred starts. And so there won't be as much previous year propellant in '25 to fuel the upside. But then it launches again as we get into '26 with 3 campuses and then equal number of programs that will be sort of boomeranging into '26.

Operator

[Operator Instructions] Our next question comes from Jasper Bibb with Truist.

Jasper James Bibb
Truist Securities, Inc., Research Division

I wanted to ask about the EBITDA margin guidance. Should we think about the margin expansion in fiscal '25 being fairly even across the UTI and Concorde segments? Or do you think the weighting of growth investments might shift that balance at all?

Jerome A. Grant
CEO & Director

So I think it's a great question. I think the margin expansion, you'll likely see a little stronger on the Concorde side because we're not investing as much in new campuses for Concorde. As you know, the Heartland campus is actually being funded by Heartland to move forward, whereas we're going to start spending on 2 campuses on the UTI side, take the capital expenditure out of the way. We'll likely start hiring some people late in 2025 as well. And so probably see slightly stronger uptake on the Concorde side.

Also being now the second full year, we really started looking at where we could find margin expansion for Concorde as well. As we said, when we acquired them, they were at about an 8% EBITDA margin when we acquired them, and we said we think we can get them to somewhere in the mid-teens within the first 36 months. Well, what you see in '25 is we're approaching that there already. And so we did a lot of hard work, and a lot of that is going to pay dividends also as we go through the year and into Q4 of next year.

Jasper James Bibb
Truist Securities, Inc., Research Division

And I just wanted to confirm, how many new program launches were in the fiscal '25 plans in the prepared remarks? And then I have a follow-up there.

Jerome A. Grant
CEO & Director

So we've got 9, what we would call, full-length programs. And in the past, one of the things we've said is please look at the investor material. We've got some representation for sort of the average of what it costs to start one and what we get out of it, whether it's 150 to 200 students, et cetera, so that you can do some modeling around that. So we've got 9 of those that we're launching, 8 on the UTI side and 1 in Concorde. The one is the Jacksonville nursing program, which will launch sometime in the middle of this year. And then on top of that, we're moving more aggressively to proliferate the short courses across, the non-Title IV short courses across the Concorde campuses.

And again, those are not big money, right? But I think one of the ways you want to look at those is we're tracking very closely the number of students that may come into a short course in sterile processing and then go on to take a surgical tech long program, right? So we really see it as a gateway to getting into the field, getting working and then taking longer courses. Phlebotomy, people come in and take a short phlebotomy, and they move on to the medical assisting or vocational nursing program. And so it's a great way for people to dip their toe in the water in terms of health care. And what we're seeing is a significant portion that are now moving on into the longer courses. So it's going to help our recruiting efforts as well.

Jasper James Bibb
Truist Securities, Inc., Research Division

Right. I guess the 9 is like a little bit higher than the, I guess, at least 6 that was in the North Star target, and you haven't really even kind of gotten into Concorde expansions yet with some of the restrictions there. So would you characterize this as an investment year as part of North Star? Or do you kind of view that 6 plus as a baseline, and you'd potentially do quite a bit more than 6 annually [or it depends there]?

Jerome A. Grant
CEO & Director

Well, yes, this is the beginning of the investment of the next North Star plan. I think, generally speaking, you can count on the similar number of programs, at least 6 on the UTI side, pretty consistently over the period. And to your point, we haven't even gotten into -- because of the growth restrictions, we haven't even gotten into the Concorde programs, which likely wouldn't start launching until late '26 or into '27, right?

And so from a program standpoint, I think you'll see a pretty even march from where we are in '25 into '26, and then we can accelerate in '27 and beyond when Concorde comes to the party. And the same is so on campus launches, right, is that we'll continue to focus on working with Heartland to get more of the dental hygiene, dental assistant campuses up and running at their funding. But again, Concorde won't come to the game likely until '27 with any of their full-size campuses.

Operator

[Operator Instructions] Our next question comes from Alex Paris with Barrington Research.

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

Most have been asked and answered, but I just had a couple of follow-ups. Marketing, it was increased and accelerated in the fourth quarter, I think your prepared comments said. Just looking at the supplemental data, it was 9.3% of revenue in Q4 and 10.7% for the full year. Is this the new run rate? Or does it peak and kind of come down a little bit? What can you say about marketing and admissions costs, which includes advertising going forward?

Jerome A. Grant
CEO & Director

Well, we're continuing to get efficiencies, I think, out of our marketing and admission spend. And so as we get bigger, I think you'll see that we get some leverage out of what we're doing. We're also getting leverage out of the fact that we're adding programs to the UTI campuses, right? So as we do local marketing for UTI, brand marketing in a market, now we have more opportunities to bring people into our campus in various areas, right?

One of the things I think we've said in the past is we talked to about 0.5 million kids a year. And even with starting 28,000 to 29,000, there still are significant numbers of them that are looking for more varied programs on the campuses. And that will get us more starts at a lower cost because we're already gathering those leads. And so I think you'll continue to see some efficiency on the marketing and admission spend going forward.

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

Great. That's helpful. And then a couple of follow-ups on regulatory. I realize the election is a huge relief and win for the proprietary school industry, the idea of even handed regulatory framework going forward, a level playing field as you put it. With regard to 90/10, I think 90/10 under the previous calculation in the UTI division was in the neighborhood of 67%. I'm wondering what percentage of UTI students are military or veteran.

Jerome A. Grant
CEO & Director

About 15%. About 15% are military and veteran population. And our -- in the old calculation, we were in the high 60s. When it flips over -- when the military funding flips over into federal funding, we end up about 82%, 83% -- actually 78%. Christine shot that in front of me right now. Thanks, Christine. So frankly, it's not a lot that we talk about because we're safely under the radar, and it's a pass-fail test. We're safely under the radar, and I don't think we get to any saturation point with the growth rates we're seeing in nonmilitary adult and high school where that becomes any of a concern.

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

Absolutely. 78% is a really good number under the new calculation. And that was legislation. That was so law as opposed to regulatory. So I don't know that we'd have a lot of relief there under Trump, at least in short order. But again, that doesn't seem to be an issue for UTI either way. On the gainful employment side, gainful employment was effective on July 1. There's been a couple of delays to October and January. There's a couple of lawsuits out there, and there's a new administration in town. So this might be a moot point, but I'm just wondering, looking across the portfolio of programs. At both UTI and Concorde, were there any programs at risk if that regulation remain unchanged?

Jerome A. Grant
CEO & Director

Nothing at risk. There are a couple of programs on the Concorde side that are nudge close to the line. For instance, programs where -- because tips are not considered part of the earnings. And so we have a couple of small massage therapy programs, puts, I think, around 100 students combined between the 2 of them, where they still are above the line. But because they don't think about tip income in it, they got close to the line. But we really didn't have anything else that was anywhere near.

Operator

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

Jerome A. Grant
CEO & Director

Thank you, operator. Well, first of all, I'd like to thank everyone for attending today. As always, Christine, Matt and I will be available for follow-up questions over the next few days into next week. And we always look forward to speaking to our investors and analysts, and we look forward once again to doing so in February when we share our first quarter results. So until then, we'd all like to wish you all a very happy and healthy holiday season. Thanks a lot for calling in.

Operator

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