



EQUITY RESEARCH

November 30, 2011

BRIDGEPOINT EDUCATION, INC. (NYSE:BPI)

CURRENT PRICE: \$22.00

Improved 3Q11 Earnings Report

RATING: NEUTRAL

PRICE TARGET: N/A

CURRENT YIELD: N/A

HIGHLIGHTS

- 3Q11 earnings improve to \$0.78/share vs. \$0.61/share during 3Q10
- Operating income rose 11.9%
- BPI raised 2011 earnings guidance to \$2.95-\$2.98/share
- Anticipate short positions adding volatility to BPI's stock
- Maintain NEUTRAL rating

EPS Estimates - Non-GAAP

	DEC 10A	DEC 11E
1Q	\$0.49 A	\$0.92 A
2Q	\$0.58 A	\$0.90 A
3Q	\$0.61 A	\$0.78 A
4Q	\$0.45 A	\$0.35 e
	\$2.14	\$2.95

INVESTMENT THESIS

BPI is in the fast growing for-profit education sector. The company primarily offers online classes for students, working professionals, and military personnel lacking time to attend regular college/university campuses. Since going public, in 2009, BPI experienced rapid revenue/earnings growth. Given potential future earnings growth, and small levels of debt, this stock may be attractive to growth investors, given its relatively low valuation. However, given the recent appreciation in BPI's stock, investors should wait for lower priced entry points.

Trading Data

52-WEEK PRICE RANGE:	\$30.61-\$15.00
SHARES OUTSTANDING:	56.38(M)
MARKET CAP:	\$1,240(M)
AVG. DAILY TRADING VOLUME:	0.41(M)
S&P 500:	1,247

Valuation Data

BOOK VALUE:	\$6.63
PRICE TO BOOK:	3.3X
DIVIDEND:	N/A

COMPANY SUMMARY

Bridgepoint Education, Inc. (BPI-\$22.00), headquartered in the San Diego CA metropolitan area, is a for-profit education provider. The company offers postsecondary education services both online and through 2 college campuses. BPI's regionally accredited academic institutions provide associates, bachelors, masters, and doctoral programs in business, education, health sciences, psychology, and social sciences. These are provided through approximately 1,345 courses with 71 degree programs and 134 specializations. As of 12/31/10, BPI had a total of 77,892 students enrolled both online and through its campuses at Clinton, IA (Ashford University) and Colorado Springs, CO (University of the Rockies). 859 students attend BPI's Ashford University and University of the Rockies. BPI has 3,000 full time and adjunct faculty members and 3,900 non-faculty staff in university services/administration, academic advising/support, enrollment services, financial aid, information technology, human resources, corporate accounting/finance, and other administrative duties.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the last page of this report.

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The company was started in 1999 by the Warburg Pincus Private Equity VIII, L.P. In 2004, current president Andrew Clark, and other current members of the executive management team joined BPI. The company went public in 2009. In 2005 BPI purchased the Franciscan University of the Praires and renamed it Ashford University. The Colorado School of Professional Psychology was bought in 2007 and renamed the University of the Rockies

BUSINESS STRATEGY

BPI offers courses online and through its two campus locations (Ashford University & University of the Rockies). Students enroll for classes and pay tuition for credits taken towards their scholastic goal. The majority of students use Title IV educational loans, paid to BPI, to fund tuition costs.

Through its accredited programs, BPI offers associate's/bachelor's/master's degrees and doctoral programs in business, education, health sciences, psychology, and social sciences. These programs appeal to regular students, employed seeking higher work pay through additional education, and military personnel.

The company's business model was developed to be scalable, cost-efficient, and easily refined in order to meet growing/changing student demand parameters. In terms of scalability, BPI has set up its operations and info technology systems to accommodate a growing enrollment of students, and generate attractive profit margins. Management believes its business model is cost-efficient by allowing it to offer quality education at an affordable tuition rate. The average undergraduate cost per credit is approximately \$390 and from \$568-\$926 for graduate online courses. Given the prospects of information technology advancements, developing student courses to meet work marketplace demands, and changing macro factors, BPI feels it has created a business model with the ability to increase student enrollment and grow future earnings.

The key aspect of its growth strategy is to attract additional students on a year over year basis. To this end BPI develops, and participates in, marketing efforts to generate leads for potential students. These efforts also include increasing the brand names of Ashford University and University of the Rockies. Most of BPI's potential student leads come from online sources through 3rd party lead aggregators. Additionally, the company employs an in-house group focused on generating leads through internet search engines techniques. Print, television, and radio media campaigns are used primarily for potential campus-bases students.

Marketing to potential students in the military and corporate America is done by BPI's channel development teams. Military development specialists and corporate liasons market to these two areas, and BPI also utilizes various trade shows/conventions. The company places emphasis on increasing/improving curriculums offered in order to meet the changing demands of the military/corporate marketplaces and thereby attract new students to enroll at BPI.

The company utilizes a team approach to recruiting efforts consisting of enrollment, financial service, and academic advisors. This provides students a single point of contact to assist in all aspects of enrollment and integration into BPI's study programs.



The large majority of BPI's students (80%-90%) use various loans and grants to pay for their educational costs. Students apply for loans/grants through Title IV programs applied by the US Department of Education. The Federal Direct Loan and Federal Family Education Loan programs provide two types of loans. The Stafford loans are one type, which can be either subsidized or unsubsidized, and PLUS loans, made available to graduate/professional students, and parents of dependent undergraduate students. Non-Title IV funding sources include cash, corporate reimbursements, military benefits, and state grants. The University of Rockies offers institutional loans to its students.

RECENT EARNINGS

BPI reported 3Q11 earnings of \$0.78/share vs. \$0.61/share during 3Q10. The increase in earnings resulted from a rise in revenues and higher operating income. Revenues grew 27.2% to \$242.8 million from \$190.9 million. Revenue growth was fueled by total student enrollment increasing to 90,597 from 77,129, on a quarter-to-quarter basis. Combined new student enrollment was approximately 22,000 vs. 24,000.

Operating income improved 11.9% to \$69.8 million from \$62.4 million despite total costs increasing to \$173.0 million from \$128.5 million. Instructional costs/services were \$69.6 million vs. \$50.2 million, marketing and promotional rose to \$68.9 million from \$55.0 million, and general/administrative expense was higher at \$34.5 million vs. \$23.3 million. Net income grew to \$43.8 million from \$36.1 million, representing an increase of 21.3%.

BPI, during the 3Q11 conference call raised 2011 earnings guidance to \$2.95-\$2.98/share, an increase over the \$2.47-\$2.57/share given during 2Q11's conference call. Revenue expectations were also increased to \$920 million-\$926 million from \$886.5 million-\$901.5 million. BPI's student bad debt/percentage of revenues ratio expectations increased to 6.1% from the 5.4% ratio, given during 2Q11's conference call. Furthermore, the company anticipates capital expenditures to be 4% of revenues.

During 3Q11 BPI concluded its stock repurchase program by buying 1.7 million shares at a weighted average price of \$21.82/share, for a total cost of \$36.4 million. 3Q11's share repurchases increased fully diluted earnings by \$0.01/share.



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OUR THOUGHTS

Overall, BPI generated a good earnings report with a couple of nice surprises. First, 3Q11's earnings (\$0.79/share), exceeded street consensus estimates (\$0.57/share), and was higher than 3Q11 per share profit (\$0.61/share). The earnings improvement was due to an increase in revenues, propelled by a rise in student enrollment (+17.5%), offsetting higher operating expenses (+34.6%). Students enrolled at BPI increased to 90,597 from 77,129 on a quarter-to-quarter basis.

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The second positive surprise was management increasing 2011 earnings guidance. BPI raised 2011 earnings guidance to \$2.95-\$2.98/share, from \$2.47-\$2.57/share, given during 2Q11's conference call. Full year revenue expectations were also increased to \$920 million-\$926 million from \$886.5 million-\$901.5 million.

During the past year a fluctuating amount of BPI's stock has been held in short positions which and increased the volatility in the company's share. Money managers, high-frequency traders, and hedge funds, have shorted BPI shares due to concerns over industry fundamentals & potential new regulations. In our opinion changes in the amount of shares held in short positions has exerted directional influence on the recent trading of BPI's shares. According to the 11/14/11 edition of "Barron's Magazine", BPI's stock had the 8th largest short interest ratio on the NYSE as of 10/31/11. Approximately 27 days of average trading volume would be needed to cover the amount of BPI stock held in short positions.

We like BPI's business model and operating strategy which could generate future revenue/earnings growth. Additionally, the company has virtually no debt on its balance sheet and ample cash/marketable securities totaling \$344.7 million, or approximately \$6.11/share. However given the volatility in BPI's shares, investors should wait for lower entry points into this stock. We are maintaining a NEUTRAL rating on BPI and our 2011 earnings estimated is \$2.95/share.



RISKS

There are no guarantees BPI will be able to grow future earnings. Declining student enrollment, inability of students to access Federal loans, industry competition, and rising operating costs could negatively affect the company's profits. Additionally, new and future regulations could adversely impact the ability of the for-profit education industry's ability to grow earnings. . Negative equity markets, rising interest rates, terrorist attacks, and failure to comply with the Sarbanes Oxley Act could cause a decline in BPI's share price. Another risk for BPI's shares is the volatility created by the wide swings of stock held in short positions.

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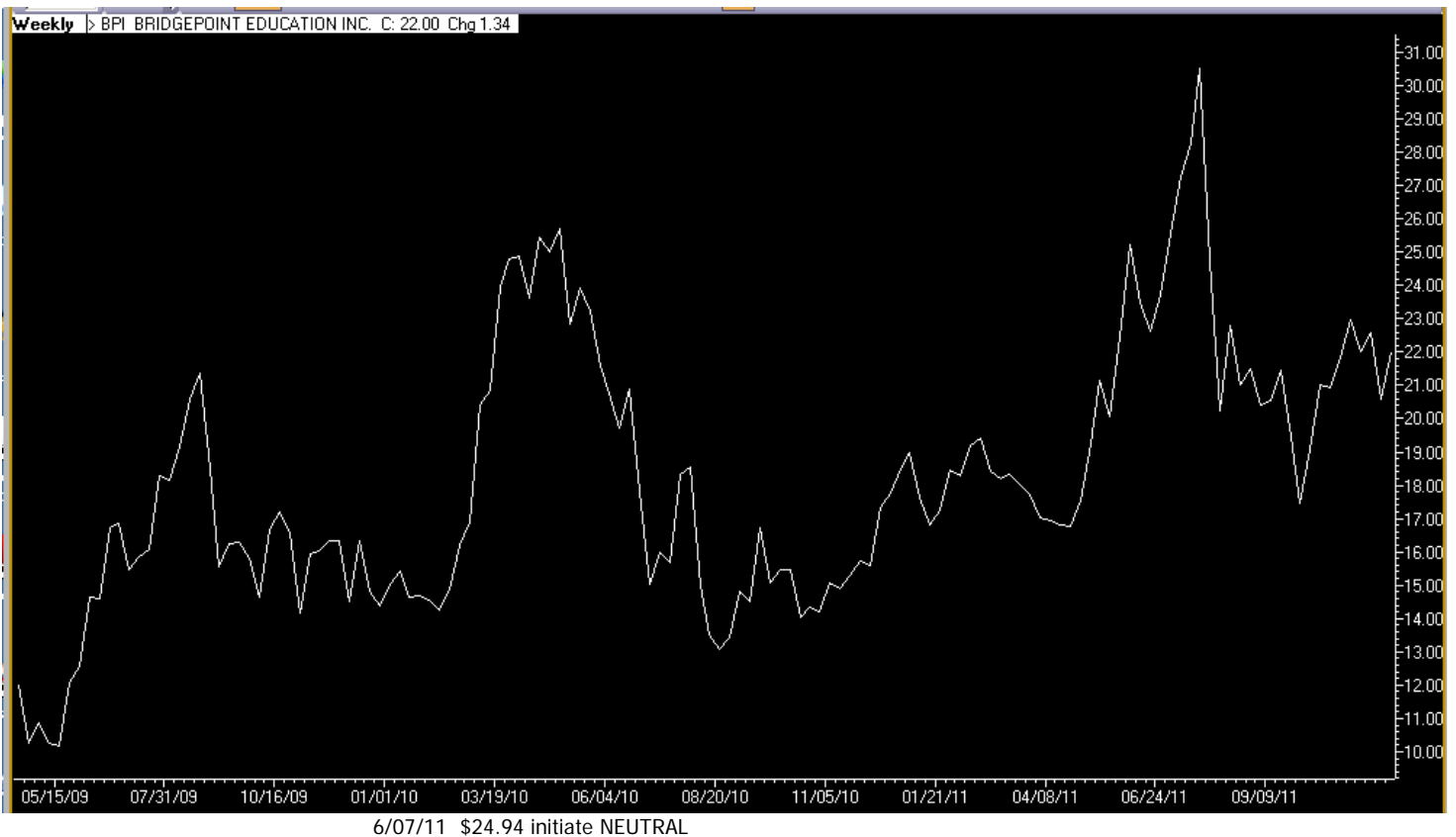


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BRIDGEPOINT EDUCATION, INC.
(in millions, except per share data)

	1Q10	2Q10	3Q10	4Q10	FY2010	1Q11	2Q11	3Q11	4Q11e	FY11e
Revenue	\$156,067	\$173,840	\$190,911	\$192,415	\$713,233	\$229,432	\$239,880	\$242,771	213,548	\$925,631
Instrucional Cost & Services	39,436	43,257	50,191	54,515	187,399	55,809	62,012	69,611	74,782	262,214
Gross Profit	116,631	130,583	140,720	137,900	525,834	173,623	177,868	173,160	138,776	663,427
Marketing & Promotional	44,212	50,096	54,963	62,279	211,550	58,966	62,188	68,848	71,460	261,462
General & Administrative	22,331	21,257	23,331	30,944	97,863	28,545	33,131	34,539	26,231	122,446
Total Costs/Expenses	105,979	114,610	128,485	147,738	496,812	143,320	157,331	172,998	182,473	656,122
Operating Income	50,088	59,230	62,426	44,677	216,421	86,112	82,549	69,773	31,075	269,509
Other Income, net	246	370	335	407	1,358	673	657	608	205	2,143
Income Before Taxes	50,334	59,600	62,761	45,084	217,779	86,785	83,206	70,381	31,280	271,652
Income Taxes	20,511	24,330	26,623	18,735	90,199	32,866	31,057	26,570	11,730	102,223
Net Income	29,823	35,270	36,138	26,349	127,580	53,919	52,149	43,811	19,550	169,429
Net Earnings Attributable to Bridgepoint	\$29,823	\$35,270	\$36,138	\$26,349	\$127,580	\$53,919	\$52,149	\$43,811	\$19,550	\$169,429
Earnings Per Share	\$0.49	\$0.58	\$0.61	\$0.45	\$2.14	\$0.92	\$0.90	\$0.78	\$0.35	\$2.95
Diluted Shares Outstanding	60,466	60,728	59,330	58,095	59,631	58,583	57,939	56,375	56,375	56,375

Important Disclosures



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- (2) Neutral – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (3) Underperform – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 40%, (2) 60%, (3) 0%

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For regulatory purposes, our ratings of Outperform, Neutral and Underperform most closely correspond to Buy, Hold and Sell, respectively.



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