



**CAPITOL
SECURITIES**
MANAGEMENT, INC.

**EQUITY
RESEARCH**

April 16, 2015

CURRENT PRICE: \$9.66
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: N/A

EPS Estimates - Non-GAAP

| | DEC 14A | DEC 15E |
|----|---------------|---------------|
| 1Q | (\$0.10) | (\$0.07) |
| 2Q | \$0.28 | \$0.20 |
| 3Q | \$0.14 | \$0.15 |
| 4Q | (\$0.12) | \$0.06 |
| | \$0.21 | \$0.34 |

Trading Data

52-WEEK PRICE RANGE: **\$16.23 - \$8.96**
SHARES OUTSTANDING: **46.0(M)**
MARKET CAP: **\$444.4(M)**
AVG. DAILY TRADING VOLUME: **0.11(M)**
S&P 500: **2,104**

Valuation Data

BOOK VALUE: **\$7.99**
PRICE TO BOOK: **1.21x**
DIVIDEND: **N/A**

BRIDGEPOINT EDUCATION, INC (NYSE: BPI)

Striving To Regain Profitability

Highlights

- 4Q14 loss of \$0.12/share vs. \$0.10/share loss during 4Q13
- Lower operating expenses/revenues
- New student enrollments improved sequentially past 3 quarters
- Potential turnaround in 2015-2016
- Maintain HOLD rating

Investment Thesis

BPI is in the 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. This stock recently declined due to regulatory issues and falling revenues. Given the potential for an earnings recovery, and small levels of debt, this stock may be attractive to speculative growth investors, given its low valuation. However, in light of recent for-profit industry concerns, investors should wait for evidence of an earnings turnaround.

Company Summary

Bridgepoint Education, Inc. (BPI-\$10.86), 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 1,145 courses with 73 degree programs and 107 specializations. As of 12/31/14, BPI had a total of 55,823 students enrolled both online and through its campuses at Clinton, IA (Ashford University) and Colorado Springs, CO (University of the Rockies). 1,800-1,900 students attend BPI's Ashford University and University of the Rockies. BPI has approximately 4,460 full time and adjunct faculty members and 3,200 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 two pages of this report.

100 Concourse Boulevard, Suite 101
Glen Allen, Virginia 23059

804.612.9700 ■ 800.612.1484
804.527.1104

www.CapitolSecurities.com

Member
FINRA
SIPC

Offices: Glen Allen, VA ■ Reston, VA ■ Charlottesville, VA ■ Silver Spring, MD ■ Baltimore, MD ■ Tampa, FL ■ Boston, MA ■ Florham Park, NJ



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 Prairies and renamed it Ashford University. The Colorado School of Professional Psychology was bought in 2007 and renamed the University of the Rockies

Recent Earnings

BPI reported fully diluted loss of \$0.12/share during 4Q14 vs. a loss of \$0.10/share. 4Q14's results included a \$0.19/share charge for impairment and severance charges. When comparing the two quarters, revenues declined to \$147.3 million from \$162.2 million caused by a decline in student enrollment. Meanwhile, total costs and operating expenses fell to \$158.1 million from \$172.1 million. As of year-end 2014, student enrollment had declined to 55,823 compared to 63,624 at year-end 2013. However, student enrollment has improved sequentially, which includes 4Q14's results. The company reported fully diluted earnings of \$0.21/share during FY14 vs. \$0.85/share during FY13.

When comparing 4Q14 results to 4Q13's, the decline in operating expenses was due to BPI's cut costs as the company adjusts to the new operating environment in the for-profit education industry. Overall expenses decreased to \$147.3 million from \$162.2 million. Instructional costs/services fell to \$81.7 million from \$90.5 million due to lower instructional expense/academic support labor costs. General/administrative expense declined to \$17.8 million from \$25.8 million resulting from lower administrative compensation, other administrative expenses, corporate support services, and IT costs. These positives were partly offset by an increase in admissions advisory/marketing expense which rose to \$58.6 million from \$55.7 million.

Operating income generated an operating loss of \$10.9 million vs. a \$9.9 million operating loss, as lower total operating expenses were not enough to offset a decline in revenues. As a result, BPI produced a net operating loss of \$5.3 million vs. a net operating loss of \$5.1 million.

EARNINGS CONFERENCE CALL:

During the 4Q14 earnings conference call management addressed efforts to adjust to the changing industry conditions created by new regulations put forth by the Federal government. Student enrollments have declined and, in response, BPI reduced operating expenses during the past two years and believes these efforts could lead to improved margins in 2015 and 2016. It was noted this could occur despite the likelihood of 2015 revenues being lower than the \$638 million generated during 2014r. Under this scenario, earnings may improve off of 2014 levels, created by improved operating margins. Additionally, management estimates new enrollments may grow by mid-single digit, or higher, during the next 12-24 months.

Branding efforts with the Forbes Business School has attracted many students. Presently, BPI estimates a third of its student body is associated with Forbes. Since transitioning to WASC, BPI's Ashford school was approved to offer



new degree programs. Three new programs were approved for Masters' level course offerings: Master of Arts in International Leadership, Master of Arts in Public Sociology, and Master of Arts in Human Development.

Our Thoughts

Not a bad earnings report for BPI in light of the \$0.19/share charge incurred during 4Q14. BPI reported fully diluted loss of \$0.12/share during 4Q14 vs. a loss of \$0.10/share during 4Q13. When comparing the two quarters, revenues declined to \$147.3 million from \$162.2 million. However, management believes revenue levels may decline slightly in 2015 and potentially rise in 2016. Given the challenging operating environment (declining student admissions) caused by new Federal regulations, BPI lowered its operating costs. In fact, the company believes 2015 operating expenses could decline approximately \$35 million from 2014 levels. If operating revenues remain at 2014 levels, then BPI could see an increase in year-over-year earnings, due to improved operating margins.

Given the negative view held by Wall Street regarding the for-profit education sector, investors need to see a hint of increased new student admissions during the next 12 months for BPI before the narrative becomes bullish for this company. Given BPI's recent cost cutting efforts, higher student enrollments in 2016 may be the precursor to earnings growth for this out-of-favor stock, and attract investors toward this potential turnaround story. We continue to rate this stock a HOLD until further visibility materializes indicating a potential turnaround at BPI

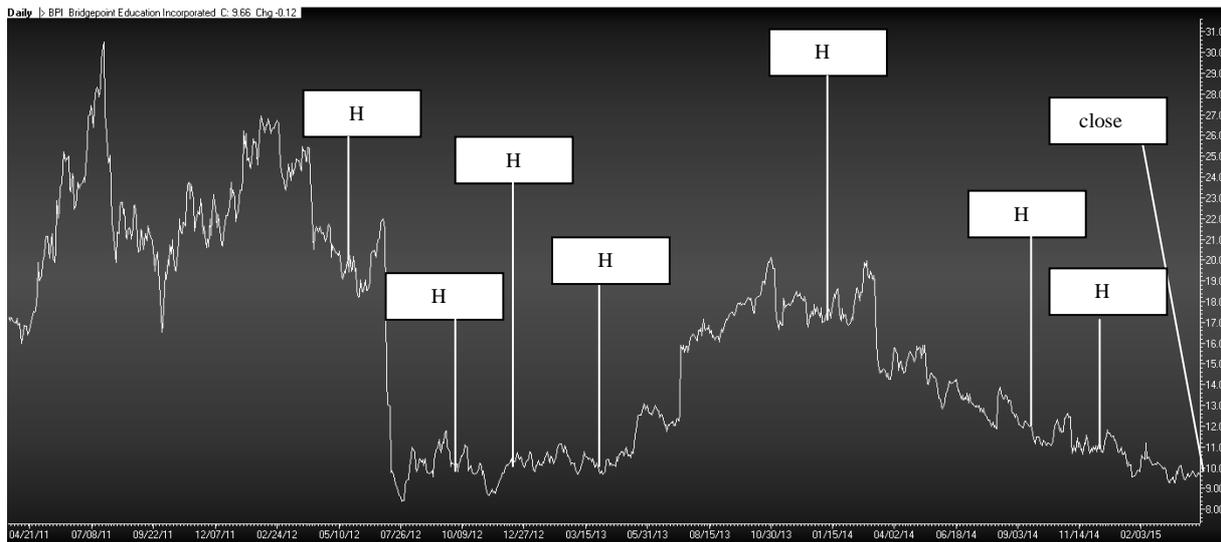


Risks

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.

Steven F. Marascia
Director of Research
Capitol Securities Management
804-612-9715

Important Disclosures



3/07/11 \$24.94 Initiate HOLD

Ratings:

Buy: B

Hold: H

Sell: S

Steven Marascia certifies, with respect to the companies or securities that he analyzes, that (1) the views expressed in this report accurately reflect his personal views about all of the subject companies and securities and (2) no part of his compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Stock ratings used in this report are defined as follows:

- (1) Buy – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
- (2) Hold – 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) Sell – 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) 43%, (2) 57%, (3) 0%

The distribution of investment ratings used for companies whom we have performed banking services in the last 12 months are (1) 0%, (2) 0%, (3) 0%

Capitol Securities Management's Investment Banking/Public Finance unit has not received compensation for investment banking services from the subject company in the past 12 months. Nor does it expect to receive, or intend to seek compensation for, investment banking services from the subject company in the next 3 months.

No affiliate of Capitol Securities Management, or Capitol Securities Management, received compensation from the subject company for products or services during the past 12 months.

The subject company is not, or during the past 12 months, was not, a client of Capitol Securities Management's Investment Banking/Public Finance unit.



Other Disclosures

This report is not directed to, or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Capitol Securities or its affiliates to any registration or licensing requirement within such jurisdiction. The information presented in this report is provided to you for information purposes only and is not to be used or considered as an offer or the solicitation of an offer to sell or buy or subscribe for securities or other financial instruments. Capitol Securities may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. Capitol Securities will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. Capitol Securities does not advise on the tax consequences of investments and you are advised to contact an independent tax advisor. Information and opinions presented in this report have been obtained or derived from sources believed by Capitol Securities to be reliable, but Capitol Securities

makes no representation as to their accuracy or completeness. This report is not to be relied upon in substitution for the exercise of independent judgment. Capitol Securities may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Capitol Securities and are subject to change without notice. The price, value of and income from any of the securities mentioned in this report can fall as well as rise.

For more information on this report, please contact us at 800.612.1484 or write to Capitol Securities, 100 Concourse Boulevard, Suite 101, Glen Allen, Virginia 23059