



September 15, 2014

CURRENT PRICE: \$12.07
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: N/A

EPS Estimates - Non-GAAP

	DEC 13A	DEC 14E
1Q	\$0.44	(\$0.10)A
2Q	\$0.22	\$0.28A
3Q	\$0.18	(\$0.06)
4Q	\$0.12	(\$0.04)
	\$0.74	\$0.08

Trading Data

52-WEEK PRICE RANGE: **\$20.33 - \$11.80**
SHARES OUTSTANDING: **46.5(M)**
MARKET CAP: **\$561.3(M)**
AVG. DAILY TRADING VOLUME: **0.15(M)**
S&P 500: **1,984**

Valuation Data

BOOK VALUE: **\$7.95**
PRICE TO BOOK: **1.53x**
DIVIDEND: **N/A**

BRIDGEPOINT EDUCATION, INC (NYSE: BPI)

Improved Results-Hopes For A Turnaround

Highlights

- 2Q14 earnings of \$0.28/share vs. \$0.22/share during 2Q13
- Results benefited by lower expenses
- Lower revenue guidance for 2H14
- Potential turnaround in 2015
- 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-\$XX), 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 12/31/13, BPI had a total of 63,624 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 4,500 full time and adjunct faculty members and 2,400 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.



EQUITY RESEARCH

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 earnings of \$0.28/share during 2Q14 vs. \$0.22/share during 2Q13. 2Q14's improvement was due to lower expenses more than offsetting a decline in revenues. When comparing the two quarters, revenues decreased 11.3% to \$171.5 million from \$193.5 million and total operating costs/services fell 14.5% to \$149.1 million from \$174.3 million. Revenues declined because of lower student enrollments (61,117 vs. 71,685). Instructional costs fell 22.8% to \$76.9 million resulting from reduced total student enrollment causing lower direct compensation, bad debt, and instructor fees. Admissions advisory/marketing dropped 3.7% to \$55.5 million. General/administrative costs decreased 3% to \$16.7 million due to lower administrative compensation and compensation fees. Operating income rose to \$22.4 million from \$19.1 million and net income increased to \$13.0 million from \$12.1 million. The 12-month student retention rate rose to 65.6% from 61.2% and new student applications increased 20%.

EARNINGS CONFERENCE CALL:

During the 2Q14 conference call management discussed progress made in changing its operating model following new federal regulatory guidelines. Discussion included how BPI had shifted away from aggregators, towards "organic sources" in finding new student enrollments. Management stated there was a doubling of student applications, as a percentage of total applications, from organic sources. These now represent over half of all applications and all of new enrollments. There was a 20% increase in new applications during 2Q14 and the company expects enrollment growth to flat to slightly positive in 2H14. However, not all of the increased applications have translated into admissions because of new guidelines resulting from enhanced identity management requirements issued by the Department of Education. Moving towards organic sources, and away from aggregators, has allowed BPI to reduce its admission workforce by 22% when comparing 2Q14 vs. 2Q13.

BPI is developing new programs to increase offerings in various educational areas. Ashford University started its first new program, since moving to the WASC Senior College and University Commission, by offering a Bachelor of Science in Health Info Management. Ashford also gained approval to offer two new master degree programs in Accounting and Psychology. The University of Rockies began three new programs during the past quarter: Masters of Arts in Education, Ph.D in Education, and a Ph.D. in Human Services.

Management noted the revisions/restatements for past revenue recognition during past periods was completed. The adjustments decreased revenues by 2%-3% with similar adjustments to bad debt expense. Going forward, BPI



expects 2H14 revenue, and bad debt, levels to decline approximately 3% when compared to 1H14 revenues. 2014 will be a year of transition for BPI as it adjusts to its new operating model and industry regulations.

Our Thoughts

BPI appears to be positioning itself towards returning towards profitability following new regulatory rules forcing the for-profit industry to change its business model during the past two years. The latest earnings results exemplify the transition process's volatile effect on BPI's profits as the company reported 2Q14 earnings of \$0.28/share vs. \$0.22/share during 2Q13. Given management's guidance for 2H14 revenues/expenses, we expect the next two quarters to produce negative earnings. However, if BPI successfully transitions to the new business model of increased admission standards, new revenue/admission recognition guidelines, and higher student enrollment in 2015-2016, then this stock could be a turnaround candidate. Given low balance sheet debt levels (less than 1%), management does have time to move forward in its turnaround efforts. Thus, investors should revisit the BPI story, as 2H14 earnings materialize, seeking evidence of a return to quarterly profits in 2015. We rate this stock a HOLD.

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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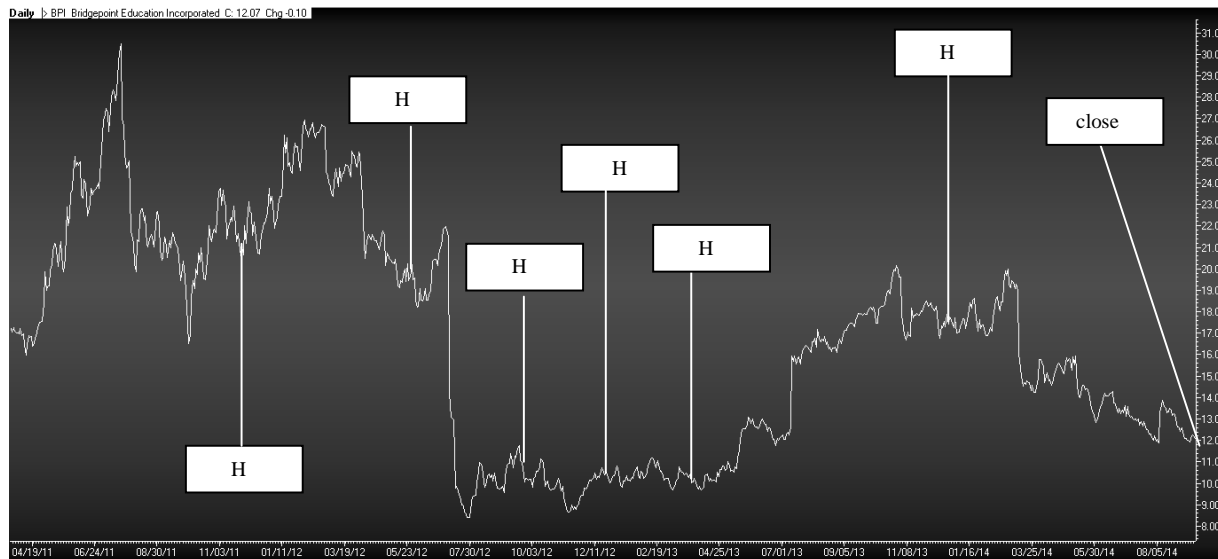


EQUITY RESEARCH

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

	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14e	4Q14e	2014e
Revenue	\$212,986	\$193,470	\$198,714	\$163,463	\$768,623	\$160,523	\$171,522	\$161,235	\$162,476	\$655,756
Instructional Cost & Services	97,028	99,603	105,542	93,755	395,928	86,454	76,853	93,516	94,237	351,060
Gross Profit	115,958	93,867	93,712	69,698	372,694	74,069	94,669	67,719	68,239	304,696
Marketing & Admissions Advisory	57,543	57,582	64,967	55,276	235,358	65,778	55,518	56,114	55,858	233,268
General & Administrative	18,739	17,152	15,175	25,828	76,894	16,269	16,737	16,742	16,216	65,964
Total Costs/Expenses	173,310	174,337	185,224	175,309	708,180	168,501	149,108	166,372	166,311	650,292
Operating Income	39,676	19,133	13,490	-11,856	60,443	-7,978	22,414	-5,137	-3,835	5,465
Other Income, net	837	748	1,051	710	3,346	367	712	548	822	2,449
Income Before Taxes	40,513	19,881	14,541	-11,146	63,789	-7,611	23,126	-4,489	-2,013	7,914
Income Taxes	15,846	7,767	5,520	4,686	22,779	3,212	10,171	1,885	1,265	3,710
Net Income	24,664	12,114	10,692	-6,460	41,010	4,399	12,955	-2,604	-1,748	\$4,204
Net Earnings Attributable to Bridgepoint	\$24,664	\$12,114	\$10,692	(\$6,460)	\$41,010	(\$4,399)	\$12,955	(\$2,604)	(\$1,748)	\$4,204
Earnings Per Share	\$0.44	\$0.22	\$0.18	(\$0.12)	\$0.74	(\$0.10)	\$0.28	(\$0.06)	(\$0.04)	\$0.08
Diluted Shares Outstanding	55,001	55,634	56,431	53,098	55,487	44,987	46,503	46,503	46,503	46,503

Important Disclosures



3/07/11 \$24.94 Initiate HOLD

Ratings:

Buy: B

Hold: H

Sell: S

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- (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.

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