

# ALTERNATIVE RESEARCH SERVICES, INC.

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## ITT Education (ESI) -- \$102.00

**Sell Short:**  
*(pre-market + 5)*

ESI reported better  
Assessing the environment

Market Cap.	\$3.6 bil
Shares Out.	36.5 mil
Short Interest	5.23 mil
Days short	8.48
Avg. Daily Vol.	617k
St. eps est. 2010cy	\$9.51
St. eps est. 2011cy	\$10.72
Px/book	16.9x
Px/sales	2.78x
Px/ EBITDA	7.49x

Source: Bloomberg

### EPS

- ESI reported relatively strong numbers today with revenue up 34% and operating margin up 440 bps to 40.8% from 36.4%. Net income was up 49% and eps was up 59%. Total enrollments were up 30% and revenue per student was up 4%. Bad debt as a % of sales increased to 6.9% vs. 4.9%, while DSO's increased to 21 up from 9.8. A/R was \$85M vs. \$29M. Deferred revenue was up only 6%. For the quarter 1.5 shares were repurchased at \$92.86. For 12 months ended, revenues were up 30% operating margins up 500 bps, revenue per student up 4.9%. For the year, 3.47 million shares were repurchased at a cost of \$348.1M or \$100.10 per share. The conference call is at 11. We wouldn't expect much value from it.
- Outside of pumping the top line with loans being made directly to students, ESI has historically benefited from annual tuition increases of ~4-6%, in line with the other for-profits. We would expect the industry to be compressed, now, given the increased regulatory shifts. The announced informal investigation of APOL, the OIG's announced critical posture toward accrediting agencies, the GAO report, the NegReg proceedings and general bad press have all contributed to the downward pressure on shares. Given the language of the ability-to-benefit draft NegReg and allusions in that language to the Department of Labor's average expected salaries, the group may find increasing tuition more difficult to justify, from both an economic and political standpoint. By that, we mean that the for-profits will definitely have to backpedal in the increasingly hostile regulatory environment. We would expect behavioral changes across the space, giving the for-profits a "team player" image with the DOE, versus cows at the trough seeking to all but steal federal funds.
- We continue efforts to add value through synergies developed with industry participants. We have reason to believe from both APOL and now ESI's reported numbers that A/R is becoming a paramount issue to the industry short thesis.

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