

FINAL TRANSCRIPT

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BPI - Bridgepoint Education Inc at Citi US Small & Mid Cap Conference

Event Date/Time: Nov. 15. 2011 / 9:00PM GMT



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PRESENTATION

James Samford - *Citigroup - Analyst*

My name is James Samford. I'm Citi's business and educational services analyst, and today our next presentation is Bridgepoint Education. We are pleased to have them here today.

I think what sets Bridgepoint apart from a lot of the other for-profit based companies is it is generally -- I think it is 99% online at this point. They do have a small ground campus but essentially it is a pure-play online company. They differentiate themselves by having a low tuition rate relative to a lot of the schools out there. That has served them well in the past, and I am happy to introduce Andrew Clark to give us a more broad overview.

Andrew Clark - *Bridgepoint Education, Inc. - CEO*

Thank you, James. Great to be here this afternoon. Put up the forward-looking statements slide quickly here for everybody.

Just thought I'd start off this afternoon by just describing the tremendously large market opportunity that presents itself. Private sector market share has increased from 2004 to 2009, now comprising almost 12% of higher education. More importantly, there's 98 million Americans out there that do not have a college education, and certainly those are people that we are trying to reach, over the age of 25.

Growth in higher education. For the entire sector, enrollment has increased by about 10 million in the past 30 years.

But even more importantly on this slide, tuition has increased by 258% between 1980 and 2010 at four-year public institutions; and at private four-year nonprofit institutions it has increased by 177%. I think the real concern, takeaway from this slide, is that these increases in tuition really threaten student access in this country and the ability to pursue a college education.

Online programs have grown in their importance. You can see from this slide here that online classes and degree programs now comprise 12% of the total headcount of US higher education, about 30% of adult and graduate headcount as of Fall 2010. Private sector comprises about 40% of the online market and about 10% of the overall US ed market.

I think everybody in this room understands the benefits of going to college, that those with increased educational attainment enjoy increased salaries and incomes, a decreased unemployment rate, and increased lifetime earnings. Our students and potential students understand all of those dynamics.

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In the United States, traditional colleges and universities continue to have to cut -- states continue to have to cut assistance. We have seen reductions in faculties, seen significant tuition increases.

And it really leaves us as a country asking -- is there more to come? If you look at the net-net taxpayer cost per student, the private-sector model is really the better of the models, costing the taxpayer just \$2,400 versus the public sector, where it costs the taxpayer \$15,500.

Certainly if we want to increase access in this country, the more prudent way from a taxpayer perspective to do it would be to look towards private-sector institutions. I think that is one of the reasons why we continue to play an important role in the overall educational goals of this country.

Specifically looking at Bridgepoint, one of our institutions, Ashford University, you can see here we have really tried to address the affordability issue for Americans trying to get a college education. You can see that our military tuition rate is at about \$250 a credit hour; and for civilians we're just under \$400 a credit hour. The remaining private-sector institutions that we may compete against are anywhere from 12% to 53% more expensive on a per credit hour basis than Ashford University.

Because of our value proposition, because of the quality in which we provide an education to our students and the affordability with which we do that, we have continued to take market share from 2007, as you can see on this chart, to 2010. Bridgepoint Education has done a very effective job at gaining market share in this sector.

One of the things that we think differentiates us is our approach to the student experience. We think this will provide increased differentiation as we look ahead into 2012 and '13 and '14.

One of the innovative ideas that we're most proud of is Constellation, which is a proprietary digital learning platform. We have about 65,000 students who have taken -- who have used Constellation. We have a patent pending on that, and I will talk a little more about it here in the upcoming slide.

We are also one of the first public education companies to provide our students with mobility. We did that with the University of the Rockies and their mobile app.

We have increased that to Ashford University, and have mobile apps available both through Apple and through the Android platform. Constellation, students, administration, gradebook, classroom, faculty, all of that is available through the mobile application.

Waypoint Outcomes is a company that we purchased back about the time we IPO-ed that allows us to -- allows our faculty to build a rubrics, and take that rubrics, and measure and assess student learning in particular course assignments and for a course -- and for actually a set of courses, an entire program if they want. Waypoint is actually used by 40 institutions other than our two institutions, Ashford University and University of the Rockies, and very important in terms of being able to demonstrate student learning outcome data either internally from an institutional perspective or externally from an accreditation perspective.

Moving back to Constellation, just to give you a little bit more color on what Constellation is, you can see on this slide a picture of it on an iPad. Constellation has been recognized in the technology area. It was a finalist for the 2011 CODiE Award.

But more importantly it's been tremendously impactful. As you can see, 89% of Ashford students say that it is reliable and hasslefree, and 78% say that it actually improved their learning.

We have tried to make this feature-rich, where students can actually take quizzes at the end of every chapter and do self-assessment. There's interactive timelines, simulations, animation. So it is not just purely text.

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We also are working and continue to work on creating and adding additional features. Students here can review their highlights, their annotations.

And all of this lives up in the cloud. So if I'm a student and I use my iPad, and I make annotations and highlights, and then I leave the iPad at home and I am on my desktop at work. And on my lunch break I want to review a chapter because I am studying for a test or something, everything that I did previously on the iPad would show up on the Web on the desktop, because it lives up in the cloud there.

We have tried to make Constellation as versatile as possible for our students. So it is not just the ability to access it on a tablet or via the Web, but we also have audio versions of the textbook so they can download a textbook and listen to it on their iPod or even their iPad.

We have written all the content that goes in there. So we hired editorial staff from publishing companies that took best practices, then worked with our faculty to develop these textbooks.

Now you see some others in our sector beginning to copy what we have done here, which we welcome, because we think what we have done is of high quality and very beneficial to students, to reduce their textbook costs from what used to be a \$150 per course down to about \$75 a course.

(video playing) So that gives you a much better idea of Constellation, the features, the benefits of that. We're obviously living in a very mobile world, and our students, as you saw from the video there, really enjoy the access that they gain to their content through our platform.

This slide here just demonstrates how we are really trying to embrace mobility and provide our students with this opportunity to learn anytime, anywhere. As I mentioned we have one of the most first mobile apps in the private sector. We now are on both tablets and iPhones.

Users can -- students can participate in online discussions. They can check in with the university support staff like their academic advisor. They can check their grades.

In our first month when we launched our mobility products for the Rockies, we had over 40,000 visits, 500,000 page views. And now our iPhone app has been downloaded in 37 countries and every state in the United States.

I would encourage any of you to go out to Apple's App Store and take a look at the customer reviews that Ashford University gets for its mobility products. Whether it's Ashford University mobile, University of the Rockies mobile or Constellation, you will see that we do tremendously well in that regard, especially compared to our peer group who has tried to come up with similar products. You will see that our reviews really stand above our competitors and really separate us.

We really strongly believe that this is very important to not only the student experience but differentiating the education in the minds of students. So just to talk a little bit more about our approach to quality. I'll have Dr. Jane McAuliffe come up.

Jane McAuliffe - Bridgepoint Education, Inc. - EVP, Chief Academic Officer

Thanks, Andrew. I love seeing that video. All right, I am here today to talk to you about two of our brands, Ashford University and the University of the Rockies.

I think of our Ashford University brand as sort of our undergraduate focus, even though they do offer master's degrees; but primarily bachelor's degrees. We have a campus in Clinton, Iowa. Very traditional, where the 18-year-old goes off to school, lives in a dorm, and participates in one of our 17 athletic programs.

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Ashford University is currently accredited by the Higher Learning Commission, and we are in the middle of applying for WASC accreditation, which is also a regional accreditor. We have a site visit coming up, you may have heard, in March; and hope to have a decision mid-year 2012.

University of the Rockies, on the other hand, I think of as our graduate institution, primarily focused in the social and behavioral sciences. They have a campus in Colorado Springs. They too are also accredited by the Higher Learning Commission, which is a regional accreditor.

You can see the makeup of our degrees there, combined. For the most part, 74%, bachelor's degree; masters 11%; and then you can see the breakout of our doctorate.

Then you can also see the breakout of our programs. And 99% of our students, as James said, are online. 71% of them are female; 50% minority; and 35 years old is our average age.

We look at -- as soon as a student enters our university as a prospective student, we look at sort of the quality aspects coming in and then follow that all the way through to the time they graduate with us. From an admissions standpoint we are looking at our student data as they come in the door.

We are walking them to class. If you think about that adult student who maybe hasn't been in school for a long time, or is coming back to school for the first time, we want them to feel comfortable and confident. So that admissions team walks them to the class, navigates them through that online experience that they may be experiencing for the first time.

We also walk them through an orientation program where we really get them comfortable with -- how do you write a paper? How do you write that first paper? And how do we post to that discussion board? So we spend two weeks really focusing on setting them up for success, basically. A nice collaboration that goes on between admissions and academics.

From a course perspective we have quality assessments, checkpoints throughout the course. Andrew mentioned our Waypoint assessment that we use.

Ashford University and the University of the Rockies invite peers to come in from other institutions, and they evaluate our online courses course-by-course. Ashford University is the current leader within that system. It is called Quality Matters, if you look it up online. We have combined over 380 courses now certified through that agency.

Always looking at our data, because we can from a technology standpoint. And truly focused on the student learning, so we have assessment teams in place that work with our faculty and our administration at both institutions to really understand how our students are learning. That is the exciting part of the job.

Our learning model is very rigorous. We start from the very basic level and we come up with program design, and we think we want to launch a program. Our faculty are working together collaboratively with content experts as well to design a curriculum that is going to make sense for students as they graduate and go out into their careers.

Our programs are designed from a course perspective, a program perspective, and an institutional outcome perspective. And we are tracking the student learning all along the way.

University of the Rockies is the same way. Their faculty are a little bit different because they are practitioners in the field during the day; so they are counselors and psychologists.

Our faculty -- anybody who wants to teach for either institution goes through an interview process and then a rigorous process of sort of coming into the online environment, learning the mission of the institution, learning what it is like to be a student



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first. And then we transition them to what it is like to be a faculty; and then we mentor them throughout their process and also have instructional specialists that are in that classroom helping them and helping the students along the way.

We believe in being transparent. Ashford and the University of the Rockies really believe in showcasing the data and showcasing our student learning. So if you go to Transparency by Design -- there is a website out there -- that really shows students upfront before they even come or even think about coming into our institution what it is our students are doing and how our students are learning. We are committed to that transparency piece because we want students to be informed as to what they are getting into in that online environment for that first time.

One example of this is Ashford University's Assessment website; you can look that up online. But we have information on there that shows student and faculty characteristics; some of our retention data; what the learning outcomes are; how our students are learning; how we do on Quality Matters; how we benchmark ourselves against other institutions; some of our survey data from alumni perspective.

So lots of information on that site. This is just sort of a snapshot of what that might look like when you get to that site.

And then a key piece of this is we don't want to just be focused internally and think that we know how to do it all. We want to validate what we are doing, and so we benchmark ourselves and use surveys and assessments but other institutions use. These are just a couple that we pulled.

The SAILS test of information literacy, we exceeded seven out of eight benchmarks set by other bachelor's institutions. This is Ashford's data. The NSSE Survey of Student Engagement, again excelling in that area.

If you look at our alumni data, 97% overall satisfaction with their experience; 95% would recommend to their friends Ashford University. So very excited to hear from our alumni in that respect.

Then I will just end on a note of -- if you look at our bachelor's students attempting more than 12 courses, we have an annual retention rate of 83.9%. And bachelor's students who transfer 60-plus credits have a 78% retention rate.

So hopefully this gives you just a little snapshot into sort of the quality aspect of both of our institutions. From here, I think I'm going to turn it over to Dan Devine, CFO.

Dan Devine - Bridgepoint Education, Inc. - EVP, CFO

Thank you, Jane. You can see from the highlights of our financial model we have some key attributes that drive our success over the years. Highly visible revenue stream resulting from the retention of our students. Over the years we have been able to generate operating leverage and margin expansion across all three lines of our operating statement, which is instructional costs and services; marketing and promotional; and general and administrative expenses.

We're a highly capital-efficient business. 99% of our students attend online; as a result, our capital expenditures are approximately 5% of revenues per year.

We have had a consistent record of operating performance in the last 11 quarters that we have reported. We have been able to achieve greater than our estimates. And then we have been able to grow a strong a growing cash position over the years, and we have approximately \$350 million on the balance sheet. We have no debt.

Our enrollments have consistently driven our revenue. You can see that the relationship CAGR of 83.4% and enrollment has equated to 102.6% CAGR since 2007 in our revenue.



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As I mentioned earlier, across all three lines you can see that we have been able to drive margin improvement. We are very focused on ensuring that we make the appropriate investments in our operations going forward as well as historically. But our revenue increase has allowed us to gain margin over those periods.

You can see that that results in both strong cash, \$148.7 million through the nine months ended September 30, and then our EPS has grown consistently over the years -- \$2.14 per share for 2010, and year-to-date we have achieved \$2.60. With that, I will turn it back over to Andrew and see if you have any questions. Thank you.

QUESTIONS AND ANSWERS

James Samford - Citigroup - Analyst

Thank you. Just wanted to start this off with just a simple question. Looks like the industry is under a contraction at this point from a new student perspective. What are you seeing right now and how are you thinking about the longer-term growth rate that Bridgepoint can achieve from an enrollment perspective?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes, sure. So we have been getting asked that question a lot, James. At Bridgepoint we have been very consistent about communicating the fact that we continue to see demand, primarily because of the value proposition, affordability. All that we do around the student experience has really resonated with the student, and as a result we continue to see strong demand.

Going out into future years we haven't really discussed new enrollment. I think we said last year at the end of our earnings call that growing at the same rate as public institutions, kind of that 5% to 7% from an enrollment growth perspective, was something that we were comfortable with. But we evaluate it each year, institution. Ashford and Rockies both evaluate their goals for the year, and then we go from that.

Unidentified Audience Member

Thank you. How are your technology investments helping you differentiate yourself from your competitors when you approach, say, community college partners and corporate partners? How is your technology helping you differentiate? And what percentage of your enrollment is actually from those sources?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes, so really the technology innovation that we have done with Constellation and our mobility products differentiates us not just from the fact that we have them and some others don't, but even then how we have designed them -- the features, the benefits, the ease-of-use, simplicity.

That is why you should go to the App Store and look at the reviews of our customers, because you will see we have very favorable reviews. It is improving their experience. We have the survey data that says that almost 80% of them feel like they are learning more effectively because of those.

I wouldn't correlate it back to really what we are doing from a corporate standpoint in terms of our corporate partnerships or even the community colleges per se. Constellation and our mobility products are built around Ashford University students, the University of the Rockies students.

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I think that the benefit that we derive from those technologies in terms of how we have designed them, their ease-of-use, and how much students like them will be a favorable contributor to our persistence in future years as well as to new enrollment. I think it really will differentiate.

By differentiating that experience, you're really going to differentiate quality in the mind of the student and prospective students. And that will really begin to separate our institutions out from some of the other institutions.

James Samford - Citigroup - Analyst

Looks like we still have about five minutes. Let's talk about 90/10 right now. I know you guys are at the high end right now. Any thoughts on what is going on with relation to military students? And any thoughts on whether that might get included in 90/10 -- or any other regulatory issues that we need to be aware of?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes, I probably read some of the same stuff that you do, and it seems to move around. First, DOD and what the tuition benefit ends up being or not being -- the last thing I heard was that it was going to remain unchanged for 2012.

I think we as a Company have always been very effective in managing 90/10, just in terms of the regulation. You can look at 2009 and then what our 90/10 was for 2010 and it went down.

So I would also point to the track record of the management team, especially over the past three years that we have been public. I think we have executed very strongly on not only the operational metrics, financial metrics, but also in terms of regulatory compliance, those metrics. And we will continue to do so.

So, things may change in 2012, '13, '14. I don't really know. What I do know is that there is plenty of time so that when the rules do change, as they did this past July, we will have that period to consider what the new rules are and adjust and make any adjustments that we need to.

Unidentified Audience Member

Could you just remind me your value proposition? How much cheaper are you than the average for-profit school or community college?

And then just update us on your placement for the students right now. In this economy, how is that holding up?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes, as one of those slides indicated we are anywhere from 12% to 53% less-expensive than the private-sector institutions that we sometimes compete against. So that is the difference in that regard.

In terms of placement, regionally accredited institutions don't have to do placement per se -- or give placement figures per se. 75% of our students are working students. So the working adult student's average age, as Jane indicated, is 35. There is not a tremendous need, obviously, to place people that are already employed, and that hasn't changed in terms of the percentage of folks that are employed.

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But we obviously do focus on our 18- to 21-year-old students on campus. We have about 1,000 of those folks and they are, like your traditional college student, coming out of college, graduating without a job. And we certainly do career development and try and help those folks out.

James Samford - Citigroup - Analyst

How should we think about competition from traditional colleges and universities? It's a big theme right now, that many of them are looking at that same working adult student trying to go back to school as a key market that solves some of their budget issues. How do you think about increasing competition there?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes, I mean you definitely see a lot more in advertising and marketing from traditional institutions than you did just even two or three years ago. Just anecdotally, when you are either watching TV or driving down the freeway and you see a billboard. So definitely there is an attempt there.

I think there are still some student-centric components that traditional universities may not focus on as much as the private sector does that provide for differentiation from an adult student perspective, removing the barriers and some of the hassles that come.

So I think we as a sector have always led from an innovation standpoint. I would expect that that would continue as well, and continuing to innovate and innovate around the student experience. And really that student-centric model will allow for differentiation I think from our sector from the traditional sector.

I think it is a great opportunity, though, that -- I think it is good that you see traditional universities migrating into the online environment. I think it is good in terms of increased access -- a lot of young students that are taking advantage of that, 18- to 21-year-olds that are doing it with those traditional institutions.

And it continues to validate for the private sector and certainly for everyone and help them understand that online education really is a good option for some students and one that can deliver the right kind of educational outcome. When you see traditional universities doing it, you know that the quality is there.

James Samford - Citigroup - Analyst

Okay. Thank you very much and see you guys soon.

Andrew Clark - Bridgepoint Education, Inc. - CEO

Thank you.

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