DeVry, Inc. (DV)

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Disclaimers

- I am not a registered investment advisor and I do not offer any investment advise
- No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments

DeVry, Inc - business

- For profit education:
  - DeVry University offers associate, bachelor, and master degree programs in technology, healthcare technology, business, and management at 94 locations in the United States and Canada, as well as through online platform; and graduate degree programs in management through its Keller Graduate School of Management.
  - Advanced Academics provides online secondary education to school districts in the United States.
  - Ross University offers medical and veterinary medical education through Ross University School of Medicine located in the Caribbean country of Dominica and Ross University School of Veterinary Medicine located in St. Kitts.
  - Chamberlain College of Nursing provides various nursing degree and degree completion programs at its campuses in St. Louis, Missouri; Columbus, Ohio, Phoenix, Arizona; Addison, Illinois; and Jacksonville, Florida, as well as online.
  - Becker Professional Review prepares candidates for the Certified Public Accountant and Chartered Financial Analyst professional certification examinations, as well as the Project Management Professional certification examination; and offers professional education programs and seminars in accounting and finance

DeVry, Inc – business (cont'd)

- Competition:

DeVry, Inc – Misc thoughts

- What can go wrong?
  - Education loans reform, restrictions
  - “Subprime goes to college”
- Opportunities:
  - More for profit students?

Strategic considerations

- Moat (*switching costs, habit, low cost*):
  - What are the moats? Brand?
  - What does it take to sustain the moats? Brand?
  - Bargaining power of suppliers/customers? Government student loan providers have a huge power
- Is it a low risk business? No.
- Is there high uncertainty? Yes.
- How capital intensive is the business? Not really
- Future growth – unknown
- Are the revenues and cash flows of the business sustainable or overstated / understated due to boom or bust conditions? I believe they are overstated

Management

- I don’t usually do management analysis. Included for template completeness
- No dilution
- Can I trust management?
- Management shareholding (> 10%)
- Management incentives?
- Are the salaries too high?
- Is there heavy insider buying?
- Is there heavy insider selling?
- Do I like the management? (Operators, capital allocators, integrity)
- Profitable reinvestment
- What has management done with the cash?
- Where is Free Cash Flow invested? Share buybacks, dividends, reinvested, ROE & ROCE, incremental BV

Is it a good business?

- >10 year history of profits
- ROE:
  - 2009:17.9 2010: 23.7 2011 h1: 25
- Margins
  - 2009: 11 2010:14 2011:15
- Growing earnings: 3 year sales growth 25%, earnings growth 37%
- No dilution
- Strong balance sheet
  - No debt
- ROIC = Earnings / (Equity + Debt – Cash) = Earnings / (Assets – non-debt liabilities - Cash)
  - ~= ROE

Is it a good business? Cash flow

- Strong cash flow
  - 2011 h1 162M earnings, 274M operating cash flow, 274M FCF (FCF = OCF – capital expenditures)
  - Free Cash Flow/Share higher than dividends paid

Is business cheap? - Buffettology calculations

- ROE 15% (assuming ~10 year average)
- Earnings in 10 years = ROE*Equity*$(1+ROE)^9$ = $670M
- Equity in 10 years = Equity*$(1+ROE)^9$ = $4.4B
- Market cap = 670M x P/E (15) = $10B
- Rate of return = ~8.6% after tax (calculations omitted)
- Assuming ROE 20%, Rate of return = 16%
- 9 year earnings growth: 19%. Assuming 19% earnings growth: 20% share price growth.
- Not clear if the recent performance can be repeated for 10 years either in equity or earnings

Is business cheap? DCF

- Discounted cash flow
  - Current earnings of ~325M
  - 10% growth for 5 years, leveling after that
    - 15% discount -> $3160M current valuation (if you buy company at <$3160M, you will get 15% return or higher)
  - 5% growth for 10 years, leveling after that
    - 15% discount -> $2910M current valuation
  - 15% growth for 10 years, leveling after that
    - 15% discount -> $5400 current valuation
- Owner's yield = earnings / (market cap + debt - cash) = earnings/EV
  - 325M / (3800M-460M) = 9.6%

- What makes up the margin of safety? Not enough margin of safety
- Is there a sufficient margin of safety? No

Is business cheap? – Graham investment considerations

- N/A for DV – included for completeness
- 3 P/Book – not a net net
- Altman Z score (http://en.wikipedia.org/wiki/Altman_Z-score)