

LAUREATE EDUCATION, INC.

Form 10-Q

May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

OR

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____.

Commission File Number: 001-38002

Laureate Education, Inc.

(Exact name of registrant as specified in its charter)

Delaware 52-1492296

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

650 S. Exeter Street, Baltimore, Maryland 21202

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (410) 843-6100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 31, 2018
Class A common stock, par value \$0.004 per share	55,255,800 shares
Class B common stock, par value \$0.004 per share	132,442,619 shares

INDEX

PART I. - FINANCIAL INFORMATION

Page No.

Item 1. Financial Statements (Unaudited)

Consolidated Statements of Operations - Three months ended March 31, 2018 and March 31, 2017 2

Consolidated Statements of Comprehensive Income - Three months ended March 31, 2018
and March 31, 2017 3

Consolidated Balance Sheets - March 31, 2018 and December 31, 2017 4

Consolidated Statements of Cash Flows - Three months ended March 31, 2018
and March 31, 2017 6

Notes to Consolidated Financial Statements 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 39

Item 3. Quantitative and Qualitative Disclosures About Market Risk 62

Item 4. Controls and Procedures 62

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings 64

Item 1A. Risk Factors 65

Item 6. Exhibits 67

SIGNATURES 72

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

LAUREATE EDUCATION, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

IN THOUSANDS, except per share amounts

For the three months ended March 31,	2018	2017
	(Unaudited)	(Unaudited)
Revenues	\$ 885,288	\$ 855,933
Costs and expenses:		
Direct costs	865,446	853,232
General and administrative expenses	47,301	65,567
Operating loss	(27,459)	(62,866)
Interest income	6,129	4,694
Interest expense	(69,465)	(102,633)
Loss on debt extinguishment	(7,481)	(1,515)
(Loss) gain on derivatives	(19,340)	12,147
Other income, net	2,406	436
Foreign currency exchange (loss) gain, net	(8,754)	2,290
Gain on sales of subsidiaries, net	298,041	—
Income (loss) from continuing operations before income taxes	174,077	(147,447)
Income tax (expense) benefit	(2,532)	27,094
Net income (loss)	171,545	(120,353)
Net income attributable to noncontrolling interests	(2,666)	(2,454)
Net income (loss) attributable to Laureate Education, Inc.	\$ 168,879	\$ (122,807)
Accretion of Series A convertible redeemable preferred stock and other redeemable noncontrolling interests and equity	(57,403)	(38,876)
Net income (loss) available to common stockholders	\$ 111,476	\$ (161,683)
Basic and diluted earnings (loss) per share:		
Basic earnings (loss) per share	\$0.59	\$(1.05)
Diluted earnings (loss) per share	\$0.59	\$(1.05)

The accompanying notes are an integral part of these consolidated financial statements.

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
 Consolidated Statements of Comprehensive Income
 IN THOUSANDS

For the three months ended March 31,	2018	2017
	(Unaudited)	(Unaudited)
Net income (loss)	\$ 171,545	\$(120,353)
Other comprehensive income:		
Foreign currency translation adjustment, net of tax of \$0 for both periods	83,369	103,396
Unrealized gain on derivative instruments, net of tax of \$0 for both periods	2,210	2,592
Minimum pension liability adjustment, net of tax of \$0	376	—
Total other comprehensive income	85,955	105,988
Comprehensive income (loss)	257,500	(14,365)
Net comprehensive income attributable to noncontrolling interests	(2,387)	(2,786)
Comprehensive income (loss) attributable to Laureate Education, Inc.	\$ 255,113	\$(17,151)

The accompanying notes are an integral part of these consolidated financial statements.

LAUREATE EDUCATION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

IN THOUSANDS, except per share amounts

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents (includes VIE amounts of \$199,609 and \$231,940, see Note 2)	\$479,011	\$468,733
Restricted cash	184,989	224,934
Receivables:		
Accounts and notes receivable	786,145	535,176
Other receivables	21,474	21,551
Allowance for doubtful accounts	(196,159)	(198,802)
Receivables, net	611,460	357,925
Income tax receivable	25,150	41,178
Prepaid expenses and other current assets	134,615	93,461
Current assets held for sale	57,990	102,623
Total current assets (includes VIE amounts of \$537,880 and \$407,315, see Note 2)	1,493,215	1,288,854
Notes receivable, net	9,448	4,116
Property and equipment:		
Land	402,781	397,153
Buildings	995,922	1,026,656
Furniture, equipment and software	1,238,810	1,188,211
Leasehold improvements	440,121	423,658
Construction in-progress	75,392	84,520
Accumulated depreciation and amortization	(1,257,674)	(1,185,294)
Property and equipment, net	1,895,352	1,934,904
Land use rights, net	2,735	2,713
Goodwill	1,942,335	1,954,666
Other intangible assets:		
Tradenames	1,280,617	1,295,614
Other intangible assets, net	34,095	35,927
Deferred costs, net	67,061	64,128
Deferred income taxes	177,601	156,006
Derivative instruments	41,341	48,186
Other assets	261,727	214,218
Long-term assets held for sale	311,231	392,391
Total assets (includes VIE amounts of \$1,375,479 and \$1,419,579, see Note 2)	\$7,516,758	\$7,391,723

The accompanying notes are an integral part of these consolidated financial statements.

LAUREATE EDUCATION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (continued)

IN THOUSANDS, except per share amounts

	March 31, 2018	December 31, 2017
	(Unaudited)	
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$82,825	\$79,568
Accrued expenses	310,362	291,216
Accrued compensation and benefits	191,755	247,575
Deferred revenue and student deposits	675,455	312,422
Current portion of long-term debt	131,738	154,234
Current portion of due to shareholders of acquired companies	35,431	40,140
Income taxes payable	18,636	29,857
Derivative instruments	123	4,458
Other current liabilities	42,101	38,560
Current liabilities held for sale	103,340	176,719
Total current liabilities (includes VIE amounts of \$425,234 and \$341,147, see Note 2)	1,591,766	1,374,749
Long-term debt, less current portion	2,852,334	3,207,064
Due to shareholders of acquired companies, less current portion	39,512	39,429
Deferred compensation	14,594	14,470
Income taxes payable	81,321	112,576
Deferred income taxes	293,957	278,215
Derivative instruments	14,772	9,390
Other long-term liabilities	312,001	260,144
Long-term liabilities held for sale	86,853	94,407
Total liabilities (includes VIE amounts of \$496,419 and \$449,561, see Note 2)	5,287,110	5,390,444
Series A convertible redeemable preferred stock, par value \$0.001 per share – 512 shares authorized, 401 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	447,881	400,276
Redeemable noncontrolling interests and equity	14,294	13,721
Stockholders' equity:		
Preferred stock, par value \$0.001 per share – 49,488 shares authorized, no shares issued and outstanding as of March 31, 2018 and December 31, 2017	—	—
Class A common stock, par value \$0.004 per share – 700,000 shares authorized, 55,256 shares issued and outstanding as of March 31, 2018 and 55,052 shares issued and outstanding as of December 31, 2017	221	220
Class B common stock, par value \$0.004 per share – 175,000 shares authorized, 132,443 shares issued and outstanding as of March 31, 2018 and December 31, 2017	530	530
Additional paid-in capital	3,383,778	3,446,206
Accumulated deficit	(772,283)	(946,236)
Accumulated other comprehensive loss	(839,322)	(925,556)
Total Laureate Education, Inc. stockholders' equity	1,772,924	1,575,164
Noncontrolling interests	(5,451)	12,118
Total stockholders' equity	1,767,473	1,587,282
Total liabilities and stockholders' equity	\$7,516,758	\$7,391,723
The accompanying notes are an integral part of these consolidated financial statements.		

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
IN THOUSANDS

For the three months ended March 31,	2018	2017
Cash flows from operating activities	(unaudited)	(unaudited)
Net income (loss)	\$ 171,545	\$(120,353)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	67,762	64,514
(Gain) loss on sales of subsidiaries and disposal of property and equipment, net	(297,479)	345
Loss (gain) on derivative instruments	19,132	(12,267)
Loss on debt extinguishment	7,481	467
Non-cash interest expense	4,645	12,233
Non-cash share-based compensation expense	(3,756)	22,388
Bad debt expense	22,153	16,502
Deferred income taxes	(26,560)	(15,882)
Unrealized foreign currency exchange loss	1,082	1,079
Non-cash loss from non-income tax contingencies	2,121	4,037
Other, net	(315)	1,919
Changes in operating assets and liabilities:		
Receivables	(268,434)	(267,480)
Prepaid expenses and other assets	(20,158)	(43,773)
Accounts payable and accrued expenses	(61,087)	(51,855)
Income tax receivable/payable, net	(14,810)	(8,907)
Deferred revenue and other liabilities	389,602	360,635
Net cash used in operating activities	(7,076)	(36,398)
Cash flows from investing activities		
Purchase of property and equipment	(44,245)	(37,147)
Expenditures for deferred costs	(3,365)	(3,476)
Receipts from sales of subsidiaries and property and equipment, net of cash sold	359,510	126
Settlement of derivatives related to sale of subsidiaries	(9,960)	—
Property insurance recoveries	—	370
Payments from (to) related parties and affiliates	750	(347)
Net cash provided by (used in) investing activities	302,690	(40,474)
Cash flows from financing activities		
Proceeds from issuance of long-term debt, net of original issue discount	188,563	6,790
Payments on long-term debt	(541,812)	(50,335)
Payments of deferred purchase price for acquisitions	(5,534)	(5,315)
Payments to purchase noncontrolling interests	(127)	—
Proceeds from issuance of convertible redeemable preferred stock, net of issuance costs	—	55,290
Payment of dividends on Series A Preferred Stock	(9,719)	—
Proceeds from initial public offering, net of issuance costs	—	456,888
Withholding of shares to satisfy tax withholding for vested stock awards		