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Strayer Blames Bad Press for Low Enrollment

By MELISSA KORN

NEW YORK—Strayer Education Inc.'s enrollment growth and its 2011 outlook have suffered due to negative publicity and the distraction of new government regulations—and not because of the school's recent tuition increase—executives at the for-profit college said Monday.

Strayer late Friday slashed its forecast for this year after reporting that new-student enrollment for the winter term, which began Jan. 3, had fallen 20% from the prior year.

"Most of [the decline] is based on the fact [that] you have important public policy commentators...as well as significant media who have questioned the efficacy of investor-funded education," Chairman and Chief Executive Robert S. Silberman said on a conference call early Monday.

More could be at play, though. Analysts say the recent firestorm over the educational value of for-profit colleges, fueled by the institutions' low graduation and loan repayment rates, has made prospective students more cautious about taking on debt to attend the schools.

"What Rob [Silberman] really misses has to do with the price of the product," Signal Hill analyst Trace Urdan said.

As Strayer has expanded further into the Southeast from its Mid-Atlantic roots, it's encountering more "price-sensitive" students, as well as additional competition from new entrants into the industry. Mr. Silberman "still acts like that doesn't matter," Mr. Urdan said.

The new-student declines were even across all geographic areas and academic programs. Mr. Silberman said a 5% tuition increase implemented Jan. 1 wasn't responsible.

Investors feared Strayer's enrollment woes could prove to be industry-wide problems, pushing stocks across the sector sharply lower. Strayer shares hit a nearly four-year low and fell 22.9% to $118.15. DeVry Inc. slid 14.9% to $40.48, while Education Management Corp. fell 17% to $13.79. Apollo Group Inc., which reports fiscal first-quarter results after the market close and has already warned that new-student starts could fall by more than 40%, dropped 5.3% to $35.96.

The winter term enrollment figures were the worst ever reported under Strayer's 10-year-old management team, according to BMO Capital Markets analyst Jeff Silber.

The company had been a darling of Wall Street, given its focus on working adults completing their degrees rather than students new to higher education, which are deemed a riskier group. But data released in August by the U.S. Department of Education revealed that recent Strayer graduates repaid their loans at surprisingly low rates, which could put certain programs at risk of losing access to federal student aid under proposed new regulations.

Strayer said that if new-enrollment declines continue on pace with winter term, overall enrollment could fall by 5% for the year. Based on that assumption, the company said 2011 per-share earnings could be as low as $7.50 to $7.70, with revenue declines of up to 1%.

Analysts polled by Thomson Reuters had expected per-share earnings of $10.99.

Strayer in October had forecast enrollment growth of 13%, with per-share earnings between $11.30 and $11.50 on revenue growth of 17% to 18%. The business model released Friday included that forecast as a possible scenario; however, in its conference call Monday, the best scenario discussed by Strayer assumed a 5% increase in enrollment.

Total enrollment for the winter term increased 4% to 57,300.

The decline in new-student enrollment "indicates that enrollment challenges are more severe and, perhaps more concerning, longer in duration than previously feared," Height Analytics analyst Jarrel Price wrote in a client note Monday.

Meanwhile, Strayer reiterated its plan to build eight new campuses this year. The company added 13 locations last year.

Despite the "full-scale assault" causing "an enormous cumulative distraction," Mr. Silberman said he is "quite comfortable" with the school's long-term prospects without needing to make significant operational changes.

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