

# Lincoln Educational Services

Investor Presentation  
September 2019

NASDAQ: LINC



**LINCOLN TECH®**

PUT YOUR **POTENTIAL** TO WORK

# Forward Looking Statement

Statements in this presentation regarding Lincoln's business that are not historical facts may be "forward-looking statements" that involve risks and uncertainties. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to: our failure to comply with the extensive regulatory framework applicable to our industry or our failure to obtain timely regulatory approvals in connection with a change of control of our company or acquisitions; our success in updating and expanding the content of existing programs and developing new programs in a cost-effective manner or on a timely basis; risks associated with changes in applicable federal laws and regulations, including final rules that took effect during 2011 and other pending rulemaking by the U.S. Department of Education; uncertainties regarding our ability to comply with federal laws and regulations regarding the 90/10 rule and cohort default rates; risks associated with the opening of new campuses; risks associated with integration of acquired schools; industry competition; our ability to execute our growth strategies; conditions and trends in our industry; general economic conditions; and other factors discussed in our annual report on Form 10-K for the year ended December 31, 2018. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in Lincoln's annual report on Form 10-K for the year ended December 31, 2018. All forward-looking statements are qualified in their entirety by this cautionary statement, and Lincoln undertakes no obligation to revise or update this news release to reflect events or circumstances after the date hereof.

# BRIDGING THE SKILLS GAP



**LINCOLN TECH®**

# Investment Thesis

- Employers are facing a skills gap; they cannot find enough technically trained employees
- Lincoln Tech is a leading, technical, hands-on educator and trainer serving in demand industries – transportation, skilled trades and healthcare
- Lincoln has achieved seven consecutive quarters of new enrollment growth and is forecasting a return to profitability in 2019
- The industry is highly fragmented with opportunity for organic and non-organic growth
- Lincoln has grown at low single digits in a strong employment market
- Lincoln's 22 campuses are currently operating at about 35% capacity
- Historically, enrollments accelerate during a recession
- During the last recession, these campuses enrolled 65% more students and achieved EBITDA 7x current guidance





# Lincoln is...

- A leader with over 70 years of experience focusing on providing middle skills gap solutions to students as well as targeted industries & professions
- Achieving
  - ✓ High graduation & job placement rates
  - ✓ Solid regulatory benchmarks
  - ✓ Increased student starts

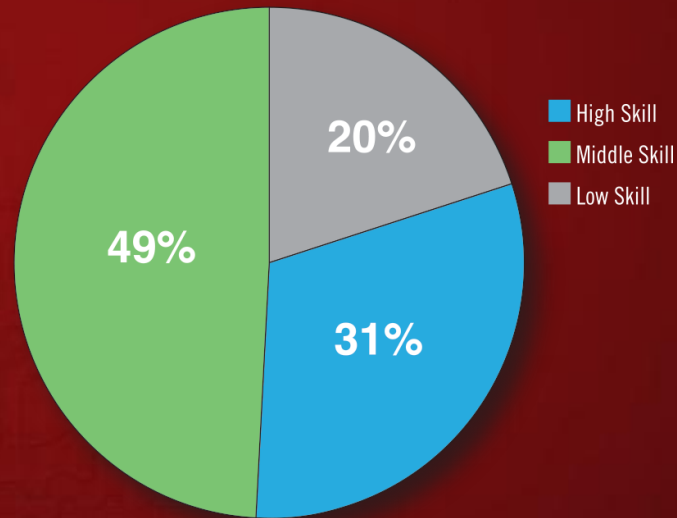


# What is Middle Skills Training?

Middle-skill jobs, which require education beyond high school but not a four-year degree, make up the largest part of America's labor market.

(Source: National Skills Coalition)

Job Openings by Skill Level,  
United States, 2012-22



Source: NSC analysis of long-term occupational projections from state labor/employment agency.



# Lincoln Today



- Headquartered in West Orange, NJ
- Operates 22 campuses in 14 states with 12,000 students\*
- Two segments focused on middle skills training:
  - **Transportation & Skilled Trades**
    - ✓ Approximately 8,000 students at 13 campuses
    - ✓ High employer demand for training in Automotive, Diesel, HVAC, CNC, Welding, Electrical
    - ✓ Growing list of industry partners
  - **Healthcare & Other Professions**
    - ✓ Approximately 4,000 students at 9 campuses
    - ✓ Growing demand for healthcare professionals
    - ✓ Strong demand by students especially for licensed practical nursing

\* As of 09-30-2019

# Lincoln Tech Campuses Across the Country

## Opportunity for expansion in South and West



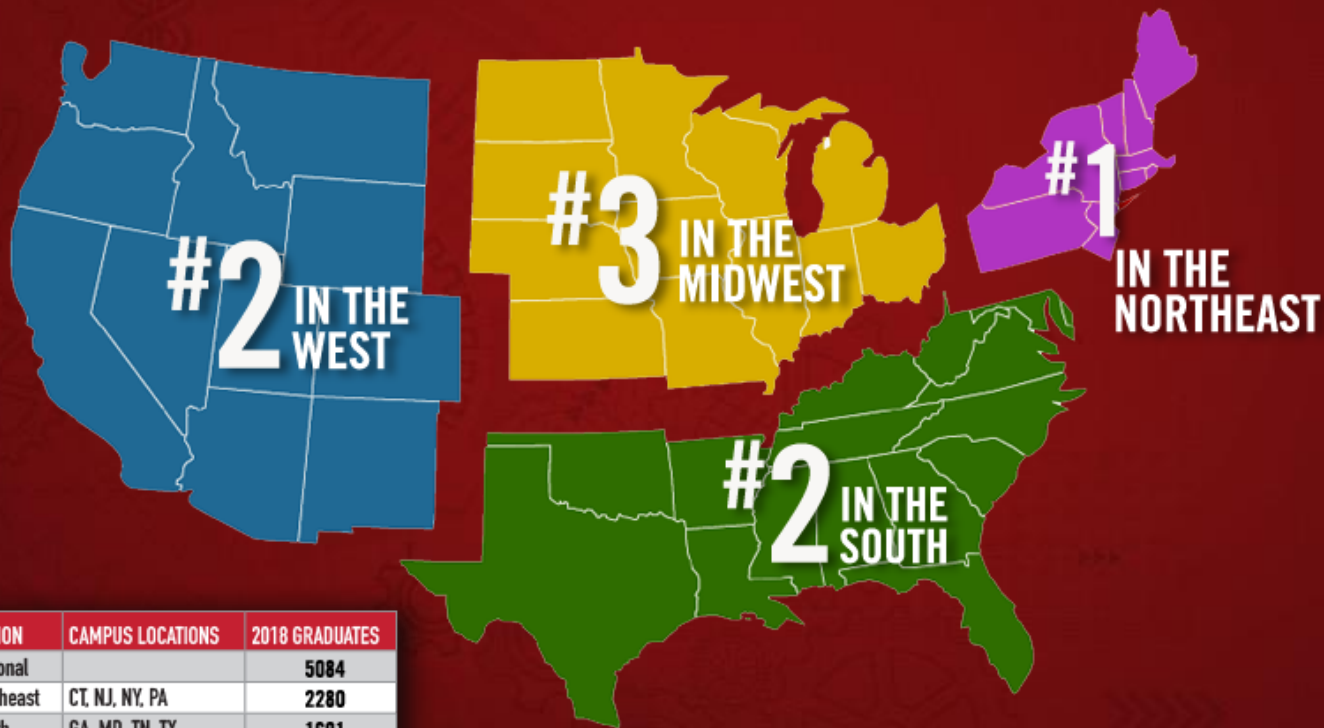




# Reasons for Growing Demand

- Skills Gap with more open positions than employees seeking employment
- Aging workforce & retirement of baby boomers leaves many middle skill jobs vacant
- Societal emphasis on getting a 4-year college degree
- Decline in career & technical education at high schools
- Growing transportation, construction and healthcare sectors

THE SECOND LARGEST PROVIDER OF AUTOMOTIVE & SKILLED TRADE GRADUATES IN THE NATION



REGION	CAMPUS LOCATIONS	2018 GRADUATES
National		5084
Northeast	CT, NJ, NY, PA	2280
South	GA, MD, TN, TX	1691
Midwest	IL, IN	594
West	CO	519

# Lincoln has Significant Opportunity for Organic Growth

BLS data for annual new hires

## Transportation & Skilled Trades

Automotive Technology	76,000
Diesel Technology	42,000
Collision Repair	17,100
Electrical	82,000
Welding	46,000
HVAC	39,000
Electronic Systems Technology	12,000
CNC Manufacturing Technology	17,000

**Lincoln's Market Share 1.5%**

## Healthcare & Other Professions

LPN	63,000
Medical Assisting	95,000
Dental Assisting	46,000
Culinary	146,000
Baking & Pastry	29,000
Cosmetology	85,000
Aesthetics	8,000
I.T.	44,000

**Lincoln's Market Share 0.5%**

National figures cited above are based on projected annual job openings which refers to the average annual job openings due to growth and net replacement. This data was compiled from the U.S. Dept. of Labor, Bureau of Labor Statistics, for the years 2016-2026, [www.careeronestop.org](http://www.careeronestop.org), captured on March 27, 2018. State-specific employment projections can also be found at [careeronestop.org](http://careeronestop.org).

# Lincoln's Workforce Solution

- Develop training programs with feedback from employers and key industry associations to understand gaps and needs
- Integrate industry preferred licensing and certifications into the curriculum
- Expect students to meet employability standards for appearance, attendance and professional attitude while in school
- Build labs and shops that replicate the working environment using professional grade equipment and tools
- Incorporate cutting edge education technology with animations, videos and simulations to make learning active and engaging
- Offer an accelerated program with multiple entry points to allow students to graduate quickly and enter the workforce sooner
- Provide robust student support services to ensure strong outcomes



# Growing Base of Industry Partners

- Lincoln positioned as long term solutions provider for entry level technicians and advanced workforce training
- Employers appreciate the technical and soft skills of our students
- Partners provide validation of the quality of our education
- Leverage co-Branding opportunities with elite partners to help attract new students
- Partners provide better job opportunities



# Strong Operating Leverage Potential

- Lincoln's population, revenue and cash flow peaked 24 months after the Great Recession
- During this time the 22 campuses generated \$410 million of revenues and \$85 million in EBITDA with 18,200 students
- Without a recession, revenues can grow in the low single digits and generate operating leverage to improve profitability
- Existing campuses can accommodate at least 60% more students with little additional capital expenditures beyond more training aids and expenses for faculty and some staff
- During a recession, the opportunity for growth is meaningfully greater

# Experienced Management Team

Name	Title	Years with Lincoln
Scott M. Shaw	President & CEO	18
Brian K. Meyers	Executive Vice President, CFO & Treasurer	16
Alexandra M. Luster	Executive Vice President, General Counsel & Secretary	24
Steve Buchenot	Senior Group President	27
Stephen Ace	SVP & Chief Human Resources Officer	11
Ami Bhandari	SVP of Education & Strategy	16
Susan English	SVP Career Services & Industry Partners	35
Francis Giglio	SVP Compliance & Regulatory	16
James Rasmussen	SVP Admissions	13
Tayfun Selen	SVP of Administration & Real Estate	8
Raj Shah	SVP of Financial Aid	17
Peter Tahinos	SVP of Marketing	6
Val Thomas	SVP & Chief Information Officer	9

# Operational Highlights

- Eight consecutive quarters of start growth thru September 30, 2019
- Higher student population going into 2019, coupled with continued start growth, positions Lincoln to return to profitability in 2019
- Continuing strong demand by employers for Lincoln graduates
- New opportunities to expand industry partnerships
- Maintaining strong regulatory record
- Continuing improvement in graduation rate
- Diversification of programs & geography contributing to start growth



# Select Financial Data – Pro Forma

(\$ in Thousands)

	2017	2018	2019 Guidance
Revenue	\$ 244,969	\$ 257,398	\$265,000 - \$270,000
Operating Income	\$ 587	\$ 2,040	
EBITDA	\$ 9,193	\$ 10,442	Approx. \$12,000
Net (Loss) Income	\$ (1,625)	\$ (551)	Approx. \$2,000
Starts	11,436	12,317	12,680 - 12,900
Average Enrollment	9,985	10,354	
Ending Population	9,762	10,525	

Pro Forma & EBITDA reconciliation slide is available in the appendix of this presentation

# Select Financial Data – Pro Forma

(\$ in Thousands)

Three Months Ended September 30, 2019				Three Months Ended September 30, 2018		
	As Reported Total	Closed Schools	Proforma Total	As Reported Total	Closed Schools	Proforma Total
Revenue	\$ 72,594	\$ -	\$ 72,594	\$ 70,078	\$ (821)	\$ 69,257
Operating Income (Loss)	\$ 2,143	\$ -	\$ 2,143	\$ 76	\$ 1,865	\$ 1,941
EBITDA	\$ 4,125	\$ -	\$ 4,125	\$ 2,177	\$ 1,861	\$ 4,038
Net Income (Loss)	\$ 1,340	\$ -	\$ 1,340	\$ (600)	\$ 1,865	\$ 1,265
Starts	4,779	-	4,779	4,653	(30)	4,623
Average Enrollment	11,253	-	11,253	10,897	(127)	10,770
Ending Population	12,015	-	12,015	11,732	(173)	11,559

# Select Financial Data

(\$ in Thousands)

Nine Months Ended September 30, 2019				Nine Months Ended September 30, 2018		
	As Reported Total	Closed Schools	Proforma Total	As Reported Total	Closed Schools	Proforma Total
Revenue	\$ 199,427	\$ -	\$ 199,427	\$ 193,087	\$ (4,695)	\$ 188,392
Operating Loss	\$ (4,815)	\$ -	\$ (4,815)	\$ (9,710)	\$ 2,895	\$ (6,815)
EBITDA	\$ 1,157	\$ -	\$ 1,157	\$ (3,420)	\$ 2,885	\$ (535)
Net Loss	\$ (7,192)	\$ -	\$ (7,192)	\$ (11,578)	\$ 2,895	\$ (8,683)
Starts	10,615	-	10,615	10,344	(140)	10,204
Average Enrollment	10,749	-	10,749	10,404	(269)	10,135
Ending Population	12,015	-	12,015	11,732	(173)	11,559

# Growth in Starts by Quarter by Segment

Start Trends - Trailing Twelve Months (Excluding Transitional/Closed Schools)			
Quarter Ending	Transportation Segment	Healthcare Segment	Total %
December 2018	6.6%	19.3%	12.1%
March 2019	0.8%	15.2%	5.6%
June 2019	3.5%	3.7%	3.6%
September 2019	0.2%	12.1%	3.4%
Trailing Twelve Months	2.0%	12.4%	6.9%





# Seasonality of EBITDA

Pro Forma EBITDA Seasonality (\$ in 000's)					
	Q1	Q2	Q3	Q4	TY
2017	\$ (3,093)	\$ (2,212)	\$ 3,307	\$ 11,191	\$ 9,193
2018	\$ (4,033)	\$ (540)	\$ 4,039	\$ 10,977	\$ 10,442
2019	\$ (2,814)	\$ (153)	\$ 4,125		\$ 12,000*
* 2019 Guidance					



# 2019 Guidance

1. Revenue growth of approximately 3 - 5% (excluding the Transitional segment)
2. Starts growth of approximately 3 - 5% (excluding the Transitional segment)
3. Net Income of approximately \$2M
4. EBITDA of approximately \$12M



# Financing Transactions

Completed November 14, 2019

- **New credit facility \$60 million** comprised of four separate facilities as follows:
  1. \$20 million term loan funded at closing
  2. \$10 million delayed draw term loan
  3. \$15 million committed revolving line of credit, with a sublimit of up to \$10 million for standby letters of credit
  4. \$15 million cash collateralized line of credit when outstandingAll of the facilities are senior secured with the term loans maturing in five years, the revolving line of credit maturing in three years, and the cash collateralized line of credit maturing on January 31, 2021
- **Private Placement of Convertible Preferred Stock** of 12,700 shares of Series A 9.6% Convertible Preferred Stock yielding aggregate gross proceeds of \$12.7 million. Each share is convertible into approximately 424 shares of Lincoln common stock, representing a conversion premium of 40% based upon Lincoln's closing stock price of \$1.68 per share on the NASDAQ on November 14, 2019.

In aggregate both transactions increased the available liquidity by approximately **\$35 million** strengthening Lincoln's balance sheet and providing flexibility to execute long-term growth initiatives. Furthermore, Lincoln anticipates an annualized interest savings of approximately \$1.0 million as a result of a reduction in the interest rate by an anticipated 30%.

# Why Invest in Lincoln?

- A national leader in hands-on training serving national, large regional, and local employers in transportation, skilled trades, and healthcare
- The skills gap will drive growth for the next decade
- Lincoln will return to profitability in 2019
- In 2010 on a same school basis the company's revenue was \$410M with EBITDA of \$85M. Given current excess capacity and anticipated future revenue growth as well as continued monitoring of expenses, the company will realize a healthier profit margin through increased operating leverage
- High operating leverage coupled with \$60 million of net income tax loss carryforwards will create strong positive free cash flow\*
- Opportunities to expand footprint and program offerings for additional growth
- In a down economy, Lincoln's growth and profitability increase
- Strong outcomes and regulatory record

\* Subject to 382 limitation



# Appendix



# Financial Statements

Our financial statements reflect the following operational results:

**1. Consolidated operations** – consists of total operations from on-going campuses (2 segments), transitional segment campuses & corporate expenses.

**2. Transitional segment operations** - consists of campuses that have been closed.

- As of January 1, 2019 there are no campuses in the Transitional segment.
- In 2018 we had one campus under the Transitional segment. In August 2018 we announced the closing of the Lincoln College of New England (“LCNE”) campus in Southington, CT by December 31, 2018. Accordingly, starting with the third quarter 2018 filings, LCNE’s historical operational results are reported under the Transitional segment.
  - LCNE’s operational recap:
    - ✓ In July 2018 the LCNE campus was placed on probation by NEASC (institutional accreditor)
    - ✓ Campus was budgeted to lose \$1.7M for 2018
    - ✓ Closing costs in 2018 were \$4.3M (including ≈\$2M lease payments thru 1/2020)
    - ✓ Majority of students transferred to another NEASC-accredited institution in the region (avoiding all student refunds)
- In 2017 we had 5 campuses that closed by 12/31/17 reported under the Transitional segment.

**3. Pro-forma operations** - reflects operations from on-going campuses (2 segments) & corporate but excludes one-time adjustments & the transitional segment.

# Use of Non-GAAP Financial Information

This presentation contains non-GAAP (Generally Accepted Accounting Principles) financial measures, which are intended to supplement, but not substitute for, the most directly comparable GAAP measures. Management chooses to disclose to investors these non-GAAP financial measures because they provide an additional analytical tool to clarify the results from operations and help to identify underlying trends. Additionally, such measures help compare the company's performance on a consistent basis across time periods. Management defines As Reported as actual operating results derived from previously filed annual and quarterly financial information submitted to the Securities and Exchange Commission. Management defines EBITDA as loss before interest expense, interest income, income taxes, depreciation and amortization. Management defines Pro forma as actual operating results derived from previously filed annual and quarterly financial information submitted to the Securities and Exchange Commission excluding unusual and non-recurring transactions such as closed school operations, gain on sale of assets and interest normalization. Management defines interest normalization as adjusting interest expense on debt from prior years using the Company's current credit agreement terms. To obtain a complete understanding of the company's performance, these measures should be examined in connection with revenue, operating loss and net loss, determined in accordance with GAAP, as presented in the financial statements and notes thereto included in the annual and quarterly filings with the Securities and Exchange Commission. Since the items excluded from these measures are significant components in understanding and assessing financial performance under GAAP, these measures should not be considered to be an alternative to revenue, operating loss and net loss as a measure of the company's operating performance. Exclusion of items in the non-GAAP presentation should not be construed as an inference that these items are unusual, infrequent or non-recurring. Other companies, including other companies in the education industry, may calculate non-GAAP financial measures differently than the Company does, limiting their usefulness as a comparative measure across companies. A reconciliation of the historical non-GAAP financial measures to the most directly comparable GAAP measures is included in the following slides.

# Select Financial Data

## Pro Forma Reconciliation

(\$ in Thousands)

2018					2017				
	As Reported Total	Closed Schools	One Time Adjustments	Proforma Total	As Reported Total	Closed Schools	One Time Adjustments		Proforma Total
							Gain on Sale	Interest Normalization	
Revenue	\$ 263,200	\$ (5,802)	\$ -	\$ 257,398	\$ 261,853	\$ (16,884)	\$ -	\$ -	\$ 244,969
Operating (Loss) Income	\$ (3,954)	\$ 5,994	\$ -	\$ 2,040	\$ (4,716)	\$ 6,926	\$ (1,623)	\$ -	\$ 587
EBITDA	\$ 4,466	\$ 5,976	\$ -	\$ 10,442	\$ 3,986	\$ 6,830	\$ (1,623)	\$ -	\$ 9,193
Net (Loss) Income	\$ (6,545)	\$ 5,994	\$ -	\$ (551)	\$ (11,484)	\$ 6,926	\$ (1,623)	\$ 4,555	\$ (1,625)
Starts	12,457	(140)	-	12,317	11,799	(363)	-	-	11,436
Average Enrollment	10,591	(237)	-	10,354	10,772	(787)	-	-	9,985
Ending Population	10,525	-	-	10,525	10,159	(397)	-	-	9,762

# EBITDA Reconciliation

(\$ in Thousands)

	Three Months Ended 09/30/19	Three Months Ended 09/30/18	Nine Months Ended 09/30/19	Nine Months Ended 09/30/18	Year Ending 12/31/2018	Year Ending 12/31/2017
Net Income (Loss), as reported	\$ 1,340	\$ (600)	\$ (7,192)	\$ (11,578)	\$ (6,545)	\$ (11,484)
Provision (Benefit) for Income Taxes	\$ 50	\$ 50	\$ 244	\$ 150	\$ 200	\$ (274)
Net Interest Expense	\$ 753	\$ 625	\$ 2,133	\$ 1,718	\$ 2,391	\$ 7,042
Depreciation & Amortization	\$ 1,982	\$ 2,102	\$ 5,972	\$ 6,289	\$ 8,421	\$ 8,702
EBITDA	\$ 4,125	\$ 2,177	\$ 1,157	\$ (3,420)	\$ 4,466	\$ 3,986