

November 2, 2011

Career Education

(CECO-NASDAQ)

Stock Rating: Underperform
Industry Rating: Market Perform

Education

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Downgrading to UNDERPERFORM; Reducing Ests./Target

Event

We are downgrading CECO to **UNDERPERFORM** from MARKET PERFORM following last night's disclosure of the resignation of its CEO, the results of an internal investigation re: placement rate improprieties and the 3Q11 earnings miss.

Impact

Little additional color was provided on the call re: the investigation results. We believe the two units where improprieties were found - Health Education and Art & Design (combined 20% of 2010 operating profit excl. charges and corp. exp.) - will see worsening enrollment trends as students and potential students become more aware of these issues. Additional risks remain at CECO's three other domestic segments - AIU, CTU and Culinary (combined 76% of 2010 operating profit excl. charges and corp. exp.) - as this investigation continues (results expected within 30-45 days). This, along with potential sanctions from ACICS, the lack of a CEO and the apparent accelerating rate of fundamental deterioration, leads us to conclude there are too many near-term risks in owning this name.

Forecasts

We have preliminarily reduced our 2011 EPS estimate to \$2.00 from \$2.40 and our 2012 EPS estimate to \$1.00 from \$1.71. We hope to refine our estimates shortly with a more detailed analysis of 3Q11 results and release our updated model.

Valuation

We are reducing our target price to \$7.50 from \$21, assuming the stock trades at 7.5x our preliminary 2012 EPS estimate of \$1 - equal to the lowest multiple in the group currently (BPI), contraction from the stock's prior 9x multiple and a discount to the 12x peer group median. We acknowledge there could be further multiple contraction and note the company's cash balance per share (unadjusted for deferred liabilities and receivables) is roughly \$6, potentially providing a floor for this stock.

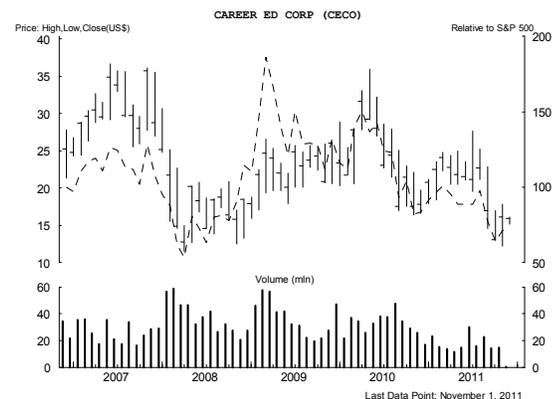
Recommendation

We are downgrading CECO to **UNDERPERFORM** from MARKET PERFORM.

Securities Info

Price (1-Nov)	\$15.95	Target Price	\$8 ↓
52-Wk High/Low	\$28/\$12	Dividend	--
Mkt Cap (mm)	\$1,217	Yield	--
Shs O/S (mm, BASIC)	76.3	Float O/S (mm)	75.0
Options O/S (mm)	na	ADVol (30-day, 000s)	690

Price Performance



Valuation/Financial Data

(FY-Dec.)	2009A	2010A	2011E	2012E
EPS Pro Forma	\$1.68	\$3.00	\$2.00↓	\$1.00↓
P/E			8.0x	16.0x
First Call Cons.			\$2.37	\$1.76
EPS GAAP	\$1.73	\$2.06	na	na
FCF	\$2.48	\$1.79	\$2.51	\$1.83
P/FCF			6.4x	8.7x
EBITDA (\$mm)	\$336	\$467	\$373	\$294
EV/EBITDA			2.1x	2.6x
Rev. (\$mm)	\$1,834	\$2,124	\$1,964	\$1,790
EV/Rev			0.4x	0.4x
Quarterly EPS	1Q	2Q	3Q	4Q
2010A	\$0.78	\$0.83	\$0.74	\$0.81
2011E	\$0.90A	\$0.74A	\$0.15A	\$0.21↓

Balance Sheet Data (30-Jun)		
Net Debt (\$mm)	-\$440	TotalDebt/EBITDA 0.1x
Total Debt (\$mm)	\$19	EBITDA/IntExp na
Net Debt/Cap.	nm	Price/Book 1.3x
DSO	11	

Notes: All values in US\$.

Source: BMO Capital Markets estimates, Bloomberg, FactSet, Global Insight, Reuters, and Thomson Financial.

Changes	Annual EPS
	2011E \$2.40 to \$2.00
	2012E \$1.71 to \$1.00

Quarterly EPS	Target
Q4/11E \$0.35 to \$0.21	\$21.00 to \$7.50
	Rating
	Mkt to Und

Career Education (CECO)						
Quarterly Comparison: 3Q 2011 vs. 3Q 2010						
(Millions, except per-share data)						
	Actual 3Q		% Change	Est 3Q		% Dif. from Actual
	Sep-10	Sep-11		Sep-11	Actual	
Revenues						
CTU	\$116.3	\$100.5	-13.6%	\$103.4		-2.8% Worse than expected
AIU	113.1	85.8	-24.2%	89.5		-4.2% Worse than expected
Health Education	110.4	102.2	-7.4%	103.1		-0.9% Roughly in line
Culinary Arts	108.3	73.7	-32.0%	94.6		-22.1% Much worse than expected
Art & Design	61.1	49.7	-18.7%	48.3		2.9% Better than expected
International	15.1	19.6	29.9%	21.0		-6.7% Much worse than expected
Corporate and other	(0.2)	(0.1)	46.5%	0.0		N.M.
Net Revenues	524.1	431.3	-17.7%	459.9		-6.2% Much worse than expected; consensus was \$455.5 million
Segment Profit						
CTU	\$32.4	\$21.8	-32.9%	\$22.7		-4.2% Worse than expected
AIU	30.6	12.4	-59.3%	16.4		-24.4% Much worse than expected
Health Education	12.8	(3.6)	-128.3%	4.5		-180.1% Much worse than expected
Culinary Arts	16.1	3.8	-76.4%	12.6		-69.8% Much worse than expected
Art & Design	9.2	2.6	-72.1%	4.1		-37.2% Much worse than expected
International	(6.7)	(7.2)	6.1%	(9.4)		-23.8% Much worse than expected
Corporate and other	(7.5)	(2.6)	65.9%	(7.6)		66.4% Much better than expected
Operating income	86.8	27.2	-68.7%	43.3		-37.3% Much worse than expected
One-time charges (e.g., legal settlement)	47.3	11.4	-75.9%			
Income from operations	39.5	15.8	-60.0%	43.3		-63.6% Much worse than expected
Interest income	0.2	0.3	42.9%	0.3		-7.7% Much worse than expected
Interest expense	(0.0)	(0.0)	-43.3%	(0.0)		-63.0% Much worse than expected
Miscellaneous income (expense)	0.8	(0.0)	-105.0%			N.M.
Total other income/(expense)	0.9	0.2	-79.4%	0.3		31.7% Much better than expected
Income before provision for income taxes	40.4	16.0	-60.5%	43.6		-63.4% Much worse than expected
Provision for income taxes	12.3	4.7	-61.7%	15.5		228.9% Much better than expected
Net Income (from cont. ops.)	\$28.1	\$11.3	-59.9%	\$28.1		-59.9% Much worse than expected
EPS (GAAP from cont. ops.)	\$0.35	\$0.15	-56.8%	\$0.38		-60.0% Much worse than expected
EPS (excl. one-time charges)	\$0.74	\$0.25	-65.9%	\$0.38		-34.0% Much worse than expected; consensus was \$0.34
Diluted shares	79.8	74.1	-7.2%	73.9		-0.2% Roughly in line
Adjusted EBITDA (excl. stock-based comp and one-time items)	\$109.0	\$53.0	-51.3%	\$68.1		-22.2% Much worse than expected
Margin Analysis/% of Total Revenues						
CTU	22.2%	23.3%	1.1%	22.5%		0.8% Much better than expected
AIU	21.6%	19.9%	-1.7%	19.5%		0.4% Better than expected
Health Education	21.1%	23.7%	2.6%	22.4%		1.3% Much better than expected
Culinary Arts	20.7%	17.1%	-3.6%	20.6%		-3.5% Much worse than expected
Art & Design	11.7%	11.5%	-0.1%	10.5%		1.0% Much better than expected
International	2.9%	4.5%	1.7%	4.6%		0.0% Roughly in line
Adjusted EBITDA margin	20.8%	12.3%	-8.5%	14.8%		-2.5% Much worse than expected
Operating margin (excl. one-time charges)	16.6%	6.3%	-10.3%	9.4%		-3.1% Much worse than expected
CTU	27.9%	21.7%	-6.2%	22.0%		-0.3% Worse than expected
AIU	27.0%	14.5%	-12.5%	18.4%		-3.9% Much worse than expected
Health Education	11.6%	-3.6%	-15.2%	4.4%		-8.0% Much worse than expected
Culinary Arts	14.9%	5.2%	-9.7%	13.3%		-8.2% Much worse than expected
Art & Design	15.0%	5.1%	-9.8%	8.4%		-3.3% Much worse than expected
International	-44.8%	-36.5%	8.2%	-44.8%		8.2% Much better than expected
Corporate and other (as % of total)	-1.4%	-0.6%	0.8%	-1.7%		1.1% Much better than expected
Operating margin	7.5%	3.7%	-3.9%	9.4%		-5.8% Much worse than expected
Pretax margin	7.7%	3.7%	-4.0%	9.5%		-5.8% Much worse than expected
Tax rate	30.4%	29.5%	1.0%	35.5%		6.0% Much better than expected
Net margin	5.4%	2.6%	-2.8%	6.1%		-3.5% Much worse than expected
Enrollment Metrics:						
Starts						
CTU	9,180	6,510	-29.1%	7,012		-7.2% Much worse than expected
AIU	6,760	4,590	-32.1%	5,040		-8.9% Much worse than expected
Health Education	9,440	7,710	-18.3%	8,564		-10.0% Much worse than expected
Culinary Arts	7,360	5,480	-25.5%	6,992		-21.6% Much worse than expected
Art & Design	3,130	1,870	-40.3%	1,696		10.3% Much better than expected
International	4,130	5,070	22.8%	4,389		15.5% Much better than expected
Total	40,000	31,230	-21.9%	33,692		-7.3% Much worse than expected
Population (ending)						
CTU	29,900	25,100	-16.1%	27,293		-8.0% Much worse than expected
AIU	21,000	17,100	-18.6%	17,454		-2.0% Worse than expected
Health Education	31,100	28,100	-9.6%	30,602		-8.2% Much worse than expected
Culinary Arts	16,300	15,400	-5.5%	16,613		-7.3% Much worse than expected
Art & Design	12,600	10,300	-18.3%	9,859		4.5% Better than expected
International	7,300	8,400	15.1%	8,541		-1.6% Slightly worse than expected
Total (excl. Transitional Schools)	118,200	104,400	-11.7%	110,362		-5.4% Much worse than expected

N.M. - Not Meaningful. N.A. Not Available.

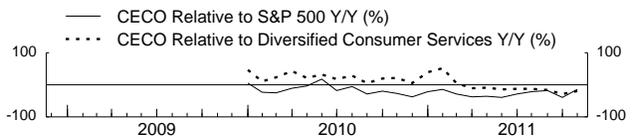
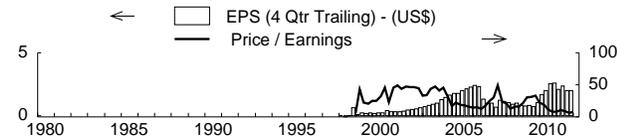
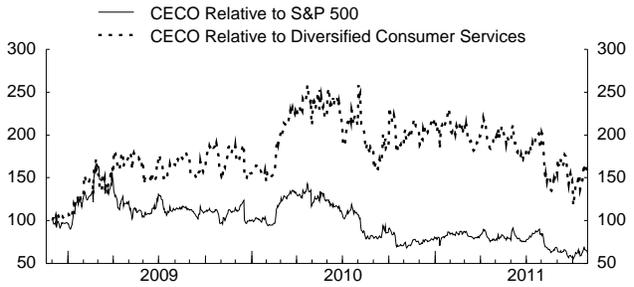
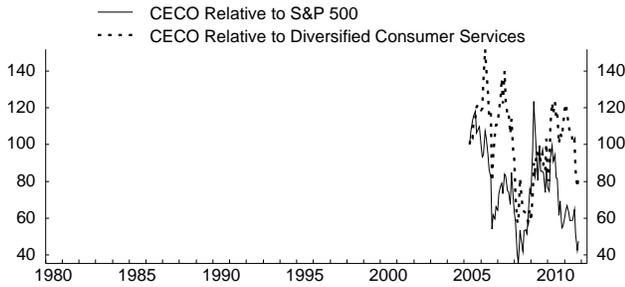
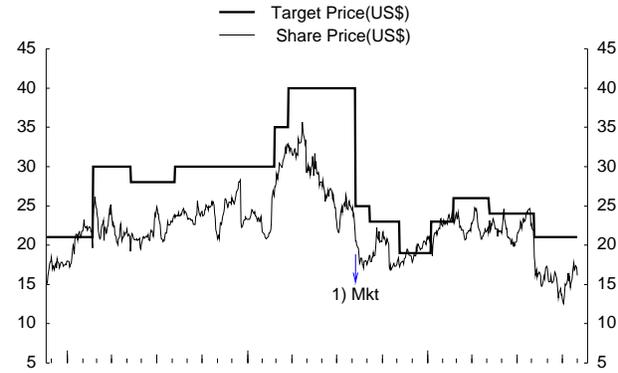
Source: BMO Capital Markets estimates and corporate reports.

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Replay available through 11/9/11

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CAREER ED CORP (CECO)



CECO - Rating as of 19-Nov-08 = OP

Date	Rating Change	Share Price
1 6-Aug-10	OP to Mkt	\$21.90

Last Daily Data Point: October 31, 2011

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Disclosure 9: BMO Capital Markets makes a market in this security.

Methodology and Risks to Our Price Target/Valuation

Methodology: Average of forward looking P/E, forward looking EV/EBITDA and Discounted Cash Flow

Risks: Worse than expected enrollment trends, legal issues related state, federal or accrediting bodies

Distribution of Ratings (September 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	12.6%	38.8%	42.5%	48.1%	57.2%
Hold	Market Perform	58.9%	13.2%	61.2%	54.6%	50.9%	38.5%
Sell	Underperform	1.9%	0.0%	0.0%	2.9%	0.9%	4.3%

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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