Aspen Group Inc.

Fiscal Q3 2016 Earnings Conference Call

March 9, 2016

Operator

Good day, ladies and gentlemen. And welcome to the Aspen Group Inc. Fiscal 2016 Third Quarter Results Conference Call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session, and instructions will be given at that time. As a reminder this conference is being recorded.

I would now like to introduce your host for today, Chief Financial Officer, Ms. Janet Gill. You may begin.

Janet Gill

Thank you, Andrew. Good afternoon. Thank you for joining us today for Aspen Group's fiscal year 2016 third quarter earnings call.

Please note that the company's remarks made during this call, including answers to questions include forward-looking statements which are subject to various risks and uncertainties. These include statements relating to expectations from our nursing programs, new student enrollments, increase in marketing spend, and forecasts including growth in revenue, gross margins and adjusted EBITDA. Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance.

A discussion of risks and uncertainties related to our business is contained in our filings with the Securities and Exchange Commission, particularly the section titled Risk Factors in our Form 10-K filed on July 28, 2015. Aspen Group disclaims any obligation to update any forward-looking statement as a result of future developments.

Also, I'd like to remind you that during the course of this conference call, we will discuss Adjusted EBITDA and Adjusted Gross Profit, which are non-GAAP financial measures, in talking about the company's performance. Reconciliation to the most directly comparable GAAP financial measures are provided in the table in the press release issued by the company today. There will be a transcript of this conference call available for one year at the company's website.

I will begin today by reviewing our financial results for fiscal third quarter, then will turn the call over to the Chairman & CEO of Aspen Group, Mr. Michael Mathews, who will provide a business update focusing on the two key drivers of our record revenue growth acceleration; that being our nursing school and our monthly payment model.

To open, quarterly revenues were $2,164,031, a 68% increase from the comparable prior year period, which is an acceleration from 58% year-over-year growth in the previous quarter. Note, that the 68% revenue growth increase beat our previous 65% revenue growth pre-earnings guidance, in part based on the fact that we delivered over 220 new student enrollments in the month on January, which was our highest new student enrollment month in our history.

Aspen Group's Gross Profit for the third quarter increased 94% from the comparable prior year period to $1,029,373 or 48% margin. Our Adjusted Gross Profit exclusive of amortization increased 79% from the comparable prior year period to $1,168,505 or 54% margin. Please note that in a few minutes Mr. Michael Mathews will be providing guidance on the forecasted Gross Margin improvement in the current quarter ending April 30, 2016.

Finally, our Adjusted EBITDA resulted in a loss of $(176,788), a sequential improvement of 37%, and an improvement of 69% from the comparable prior year period. Our Net Loss applicable to shareholders was $(674,964) or loss per share of $(0.01). That's a sequential improvement of 9% and an improvement of 44% from the comparable prior year period.

From a balance sheet perspective, Aspen ended the quarter with a cash balance of approximately $1.5 million. And finally our total stockholders' equity ended at a positive $733,628.

Now, I'll turn the call over to Michael Mathews to provide a detailed business update.

Michael Mathews

Thanks Janet. Good afternoon everyone. As you know, we just announced that our revenues for the third quarter are up 68% year-over-year. Only three quarters ago our revenues were up 34% year-over-year, meaning that in the last nine months our year-over-year revenue growth rate has doubled.

Allow me to walk you through these two primary reasons for the significant growth acceleration.

First, Aspen quite clearly has become the nursing school of choice among registered nurses in this country. Our nursing school student body has grown by exactly 100% year-over-year, from 1,151 students to 2,307 registered nursing students as of January 31, 2016. The addition of 1,156 nursing students - net, over the past year accounted for 83% of Aspen's overall student body growth in that timeframe. Aspen's nursing school revenues grew by 246% year-over-year and accounted for 87% of the total revenues in the third quarter.

These data points all lead to an obvious conclusion, that are nursing students drive more revenue on average versus non-nursing students. Today our nursing school represents 52% of our degree-seeking student body, but as I just indicated, that 52% represented 89% of Aspen's total revenues. But why is that?

Quite simply, nursing students are taking more courses per year and are active at a higher rate than non-nursing students. For example, at the end of January we had 2,400 students active at a course at that time, 1,506 or 63% of those 2,400 students were nursing students.

Given these facts, Aspen will continue to focus on nursing as our primary growth driver. As previously announced, we are currently pacing at approximately 2,000 degree seeking students per year, and we expect that about 75% to 80% of that growth will continue to be in our school of nursing.

The second primary reason for our growth acceleration is the rapid adoption of our debtless education solution in which we allow our students the opportunity to pay for their education month-to-month. We first announced this vision in March, exactly two years ago.

As I just mentioned, at the end of January, Aspen had 2,400 students active in the course. Amazingly, at that time, 51% or 1,231 of those active students were paying for their education through one of Aspen's monthly payment programs. In other words, we launched the debtless education solution two years ago and already a majority of our active students are choosing the fiscally sound approach of not incurring debt. We always believed that a majority of our students would utilize the no-debt approach if given the opportunity. We just never imagined we would achieve this among a snapshot of our active students in such a short period of time.

As of month end January, we had 1,595 students signed up for a monthly payment program, and we're increasing that total by approximately 90 students per month - net, or 1,080 per year. In the not too distant future, we're projecting that two-thirds of our active student body will be utilizing our monthly payment methods.

What does this mean from a financial point of view? Well, the total value of our student monthly payment contracts at quarter end was just over $11 million, and the total contractual value is currently growing at a whopping pace of $900,000 per month.

So to recap, the combination of our focus on nursing, combined with our debtless education solution, are the two primary drivers as to why our revenue growth rate has doubled in the past nine months.

Jumping to our pace of new student enrollments. In the third quarter, we enrolled 550 new degree-seeking students, which is an increase of 75% year-over-year. We increased our internet advertising spend rate by 46% year-over-year, therefore our cost for enrollment actually declined by an impressive 16% year-over-year.

Moving now to the academic side of the university. Our Chief Academic Officer, Dr. Cheri St. Arnauld, has developed a long-term strategic plan to evolve our legacy adjunct faculty model to a hybrid of adjunct faculty and full-time faculty. This is intended to accomplish two goals. First and foremost, by concentrating more courses to full-time professors, we believe the quality of instruction will rise which will drive improved student outcomes, course completion rates and graduation rates.

Second, by implementing a graduated full-time faculty model, meaning as at course loads hit certain volume levels we then hire these faculty members full-time, this will achieve annualized cost savings of over 50% for each full-time faculty member hire.

As a result of this new graduated full-time faculty model, in the upcoming quarter ending April 30, 2016, we are forecasting our instructional costs and services to remain relatively flat quarter-over-quarter even though we're expecting course starts to rise sequentially by approximately 15%.

Should this result occur as forecasted, instructional costs and services as a percentage of revenue would drop sequentially from 23% of revenue to 21% of revenue. Given Aspen will be keeping its marketing spend rate flat sequentially, we're therefore expecting our Gross Margins to rise from 48% in the third quarter into the low-50s in the current quarter ending April 30, 2016.

From a bottom-line perspective, given the Gross Margin improvement, and given the fact that we expect revenues in the current quarter to rise by at least 12% sequentially, we are comfortable continuing to forecast that in the current quarter ending April 30, 2016, we will deliver our first quarter of positive Adjusted EBITDA.

That ends our prepared comments for this afternoon. Now we'd like to open the call to address any questions.

Question-and-Answer Session

Operator

And our first question or comment comes from the line of Howard Halpern with Taglich Brothers. Your line is now open.

Howard Halpern

Congratulations, great quarter guys, great quarter.

Michael Mathews

Hi Howard. How are you?

Howard Halpern

I'm okay. In terms of how you're growing the revenue, is your G&A cost going to remain fairly stable in that $1.6 million to $1.7 million range in the next couple of quarters?

Michael Mathews

Yes, we expect our G&A to remain relatively flat in the upcoming quarter, yes.

Howard Halpern

Okay. And from what you just talked about with Gross Margins, I know this is not forecasting into 2017. But for modeling purposes, do you think you're going to be able to maintain that 50% plus gross margin?

Michael Mathews

Yes. As I just mentioned in my comments, our GAAP Gross Margin was 48% this past quarter. And because of the fact that we're not increasing our marketing expense sequentially, and because of Dr. St. Arnauld's full-time faculty plan, we're going to see our Gross Margins jump by 3% to 5% sequentially.

Howard Halpern

Okay. And, I saw you had a press release earlier in the last couple of weeks. What does lifting that obligation of restricted cash, what kind of flexibility does that give you going forward?

Michael Mathews

Well, what it really does for us is allow us to continue to increase our advertising spend rate in the coming year. If we didn't have that cash unrestricted, we probably would have needed to remain at our current level which is $150,000 in advertising spend rate per month. So we do expect, not this quarter that we're in but the subsequent quarter, we are planning to increase our spend rate again.

Howard Halpern

Okay. And one last one, earlier this week there was a Wall Street Journal article and it talked about sort of like the landscape and what really the opportunities I guess for you are out there including the number of students that get turned away, and also which I thought was interesting that this is sort of a quote from them saying that 17 states will allow community colleges to offer bachelor's degrees, nine of which will have authorized nursing programs. Does that give you an opportunity to partner potentially with institutions out there?

Michael Mathews

First of all, I'd like to talk about the article because it was obviously quite timely given our focus; we're becoming a very, very large nursing school clearly. What that article is essentially saying is that there is a dramatic increase in registered nurses (going back to school) that currently have degrees, two-year degrees called an ADN, Associate Degree in Nursing. And the article is basically focusing on the growth of the program that we offer, the RN-to-BSN Program, it's commonly known as a BSN Completion Program. In 2004, so over in the last decade that particular degree program has grown in the United Stated by 273%, and based on the chart it looks like there is increase of approximately 10,000 students - net, per year. And so to give you an idea how significant Aspen's success in BSN growth this year, if you have for example approximately 130,000 registered nurses currently in a BSN completion program in the United States, and assuming the average completion time is three years. That essentially means that you're going to have somewhere in the vicinity of 50,000 nurses that are commencing with the BSN Completion Program on an annualized basis, in doing the math quickly.

Howard Halpern

Right.

Michael Mathews

So for us to have brought in 1,000 nurses since we began from scratch in November last year, that means that we've gone from zero to be actually 2% of the marketplace in a short 12 months. And again as you know our spend rate is only $150,000 per month. So to go from zero to 2% of the marketplace is quite an accomplishment in a short period of time.

Howard Halpern

Okay. Well keep up the good work.

Michael Mathews

Thank you.

Janet Gill

Thank you.

Operator

Our next question or comment comes from the line of Brett Reiss with Janney Montgomery. Your line is now open.

Brett Reiss

Yes. Hi, Mike. Hi, Janet.

Janet Gill

Hello.

Michael Mathews

Hello, Brett.

Brett Reiss

Are we getting word of mouth referrals where the acquisition cost for us would be like zero?

Michael Mathews

We definitely get a lot of referrals every month. We also have recently begun a program with one of the large unions in the Eastern region which is helping us as well. So, yes, there is no question, when you capture 2% of the starts within a very short 12-month period there is no doubt -- again we have over 2,307 nursing students at the end of January in our school -- there are a lot of referrals that take place. But I would say referrals are probably between 10% and 15% on a total enrollment basis. So it's significant but it's certainly not going to end up our primary acquisition channel.

Brett Reiss

Are you able to like offer a discount to existing students if they bring a referral to you?

Michael Mathews

There are significant rules with the Department of Education relative to those types of offers. There is very, very significant limit, like $100.

Brett Reiss

Okay.

Michael Mathews

However, all of our corporate partnerships we do offer a 10% discount, and we have over 25 corporate partnerships today and it's quite a vibrant channel for us.

Brett Reiss

Right. Now you're working very hard and I see the results. There is a whole toolbox of things one can do to attract attention and get the price of the stock up. Is it fair to say that right now that's really on the backburner, you just want to continue to put up the revenue numbers, get the positive cash flow, and then at some point later on the stock price will take care of itself?

Michael Mathews

Yes. I really don’t want to comment on whether or not I feel that we have an appropriate valuation currently or not, but I am quite active in the marketplace making presentations to prospective investors. So I think our story is very well told among the finance community. Clearly we've seen a nice rise in our stock since we've pre-announced the over 65% growth obviously. Today we announced the 68% growth year-over-year. I don't think there are any universities that are even increasing by 20% year-over-year. So we're a very unique company in the entire education sector, and I think it's just a matter of time before we get to the point where our valuation rises appreciatively.

Brett Reiss

Right. These days, who is the constituent you would say that will buy your stock? So many of the firms, the compliance departments, discourage the brokers from buying penny stocks. The financial plan there is don't buy individual stocks anymore, they allocate to ETX, as you continue to put up these tremendous numbers who's going to be the constituent that will want to buy the stock?

Michael Mathews

Well, everybody knows that in order to widen the potential shareholder base, we would need to uplist at some point to NASDAQ, as an example. And once you do that then clearly you have the ability to have more shareholders, like the mutual firms and such. And of course I've been through this process, this uplist process we did with my previous company, so I understand the process quite well. I don't really see, at least at this point in our corporate history, I don't really see that being much of a problem because there are many, many micro-cap funds across this country that I think recognize what we're doing, many are shareholders of the company. So I don't really feel like at this point we need to uplist in order to achieve a higher valuation. Clearly that is a plan in the future, but not in the near term.

Brett Reiss

Great. All right, I'll drop back in queue. Thanks for answering my questions.

Michael Mathews

Sure.

Operator

I'm showing no further questions at this time. So I would like to turn the conference back over to the CEO, Michael Mathews, for any further remarks.

Michael Mathews

Thank you everyone for your questions today. I want to thank everyone for joining us this afternoon and the team here looks forward to talking to you again soon. Have a good afternoon.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone have a wonderful day.