Aspen Group, Inc. (NASDAQ: ASPU)

Q2 FY'2019 Results Earnings Conference Call

December 10, 2018 4:30 PM ET

Executives

Joseph Sevely - Chief Financial Officer

Michael Mathews - Chairman of the Board, Chief Executive Officer

Analysts

Darren Aftahi - ROTH Capital Partners

Eric Martinuzzi - Lake Street Capital

Eric Des Lauriers - Craig-Hallum Capital

Howard Halpern - Taglich Brothers

Operator

Good afternoon. Welcome to the Aspen Group Fiscal Year 2019 Second 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 future growth including from USU, FNP program and the Aspen University hybrid pre-licensure BSN campus model, the company's gaining market share and the nurses' student market, student enrollment and our liquidity plans. 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 Aspen's business is contained in its filings with the Securities and Exchange Commission mentioned in the press release issued this afternoon. Aspen Group disclaims any obligation to update any forward-looking statements as a result of future developments.

Also, I'd like to remind you that during the course of this conference call, the company will discuss Adjusted EBITDA and EBITDA, which are non-GAAP financial measures in talking about the company's performance. Reconciliations to the most directly comparable GAAP financial measures are provided in the tables 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.

Now I will turn the call over to Joseph Sevely, Aspen Group's Chief Financial Officer.

Joseph Sevely

Good afternoon. I will begin today by reviewing our financial results for our fiscal 2019 second quarter. Then, will turn the call over to our Chairman and CEO of Aspen Group, Michael Mathews.

To open, quarterly revenue was approximately $8.1 million, a 67% increase from the comparable prior year period, and a sequential increase of $0.9 million or 12%.

USU revenues contributed approximately 19% of the quarterly revenues for the company, while Aspen's new BSN pre-licensure campus unit contributed approximately 3% of the overall quarterly revenues.

Aspen Group's Gross Profit for the second quarter increased to approximately $4.1 million or a 50% margin. This represents a 43% increase in gross profit compared to last year's second quarter. On a sequential basis, gross profit increased 23% and Gross margin increased by over 4.5 percentage points.

Aspen University's gross profit represented 55% of aspen University's revenue for the quarter, while USU's gross profit equaled 44% of USU'S revenue for the quarter. Both of these units saw 4 percentage point improvements sequentially.

Total Instructional costs and services for the quarter rose to approximately $1.6 million or 20% of revenue. Aspen University's Instructional costs and services represented 17% of Aspen University revenue for the quarter, down from 19% in the first quarter. USU'S Instructional costs and services equaled 29% of USU'S revenue for the quarter, which was lower than the 33% incurred in the first quarter. We expect USU's instructional costs as a percentage of revenue to continue to decline moderately as revenue grows.

Marketing and promotional costs for the Quarter were approximately $2.2 million or 28% of revenue, declining from 30% as a percentage of revenue in the first quarter. Aspen University's Marketing and promotional costs were 25% of Aspen University's revenue for the quarter, down from 27% in the first quarter. USU's Marketing and promotional costs equaled 27% of USU's revenue for the quarter, up about half a percentage point from the first quarter.

G&A costs for the Quarter were approximately $6.2 million compared to approximately $3.2 million during the comparable prior year period, an increase of $3 million or 96%, and a sequential increase of approximately $0.4 million or 7%.

The 7% sequential G&A increase is primarily due to increased staff cost at AGI, including my coming onboard as CFO and an expanded finance department, bringing HR in-house, an increase in academic support staff at AU, call center staff to support the increased USU enrollment, and a $49,000 increase in our formulaic bad debt expense.

Net Loss applicable to shareholders was approximately $2.5 million or Diluted Net Loss per share of 13 cents for the Quarter as compared to a Net Loss of $0.5 million or 4 cents for the comparable prior year period, an increase in the loss of approximately $2 million.

Aspen University generated approximately $0.4 million of Net Income for the quarter, USU experienced a Net Loss of approximately $1.1 million during the quarter, and AGI corporate incurred $1.8 million of expenses in the quarter.

Aspen university showed good operating leverage as operating income increased by over $200,000 from the prior quarter on a revenue increase of approximately $650,000, therefore approximately one-third of the sequential increase in revenues dropped to Aspen University's bottom line.

With regard to our liquidity position, Aspen Group ended the quarter with approximately $7.7 million in unrestricted cash, down $2.7 million from the level at the end of the first quarter. The rate at which we are consuming cash is slowing as total cash outflow declined from $4.2 million in the first quarter.

Operating cash outflow this quarter was a use of $2.1 million as compared to $3.4 million last quarter, therefore the company decreased its operating cash outflow by 38% sequentially.

We used $0.6 million for working capital in the second quarter. Our gross accounts receivable increased significantly in the quarter by $2.4 million, however much of that increase was due to timing as we had a large class start on October 30, right before the end of the quarter.

With that start invoiced but with limited collections by quarter end, accounts receivable spiked temporarily. That's a typical pattern for us right after a class start and not indicative of a trend towards significantly higher accounts receivable.

In addition to our cash resources, we also put into place a new three-year revolving credit facility in November, right after the end of the second quarter.

Last week the company made a scheduled payment of $1.16 million under the 8% convertible note issued in connection with the USU acquisition. The remaining $1 million of principal under the note will mature a year from now, on December 1, 2019.

The company used its existing cash resources to make the payment and we don't expect to draw on our credit facility this fiscal year. It is our expectation that we have adequate liquidity resources for the near future.

Now I'll turn the call over to Michael Mathews.

Michael Mathews

Thanks Joe. We all certainly welcome you to the executive team and look forward to work with you for the coming years. Good afternoon everyone.

Today I'll begin with our enrollment results followed by a discussion of our growth plans for our two newest units, USU and our Pre-licensure BSN program. Then I'll end with some thoughts about why we are a compelling investment today and provide an update on our recent accreditation reviews.

Fiscal Q2 of course is our seasonal high-point for new student enrollments given this past quarter falls during the 'back-to-school' months of August through October. We certainly didn't disappoint as the company delivered a record 1,565 new student enrollments, which was a 50% increase year-over-year and a 19% sequential increase.

Of the 1,565 enrollments this past quarter, 1,294 were at Aspen University, including 1,104 in the Aspen Nursing core unit, 133 in the Doctoral unit, and 57 in the pre-licensure BSN unit. Additionally, USU accounted for 271 enrollments with the majority again being Family Nurse Practitioner enrollments.

Note that last year in Q3 our enrollments dipped sequentially in our Aspen Nursing core unit by 7% given the seasonal strength of Q2, and we expect that same trend to play out this fiscal year.

Let's talk a little more about seasonality. In Q2 our revenues increased by about $874K sequentially and gross profit increased by about $774K. Our strongest quarters are typically Q4 and q2, in that order. Our softest quarter is Q1 due to the seasonal slowdown in the summer. Q3 falls in between so we expect some moderation in enrollments, revenue growth and operating leverage in Q3. We expect Q4 to be our strongest quarter and expect very solid improvements in all those areas again in Q4 of this fiscal year.

As we discussed last quarter, our active student body growth normalized as expected following our Q1 summer seasonal quarter, as Aspen's active student body grew from 6,590 to 7,107 or 8% sequentially.

USU also continued its consistent student body growth by increasing 23% sequentially from 684 to 843 students. The FNP program is accounting for the lion's share of USU's growth, as that program now accounts for approximately 80% of USU's overall student body.

In terms of our marketing strategy in Q2, we are increasing efficiency and achieved strong enrollment growth while only adding 2 enrollment advisors to our call center this past quarter.

Also, after sequentially increasing our internet advertising spend rate at Aspen University in the first quarter by approximately $250,000, in Q2 we flattened that spend rate by only spending an additional $20,000 per month.

For USU, on the other hand, we increased our internet advertising spending by about 20% sequentially as we continue to invest in the student body growth of the promising FNP program. As you will note, that additional growth spend was rewarded as USU enrollments rose by 23% sequentially. Note that our six-month rolling average cost-of-enrollment declined 15% sequentially at USU from $1,783 to $1,517.

So as we're starting to scale our spend at USU, our efficiency is improving similar to the history at Aspen. Given our projected LTV for the USU FNP program is $17,820 that translates to a marketing efficiency ratio of 11.7X. This means that the FNP program is projected to deliver just over double the efficiency of our core Aspen Nursing unit.

That completes my remarks on the marketing results of the past quarter. So now I'll shift to future growth plans for USU and our pre-licensure BSN program.

First, as I've discussed on previous calls, when we acquired USU a year ago, we originally planned to grow our FNP enrollments at a rate of 150 every other month. Our accreditation review with the CA Board of Registered Nursing (BRN) started shortly after our acquisition, so we internally decided to only enroll 75 every other month.

Due to that decision, our revenue ramp at USU has been slower than we originally projected. However, we've begun enrolling to a target of 150 FNP students every other month, which was our original expectation a year ago.

The reason we've increased our FNP enrollment target up to 150 every other month is the fact that our FNP programmatic accreditation review with the California BRN is substantially complete and we have been methodically building an operational staff capable of supporting a larger FNP student body over recent months.

Please be advised that we did indeed begin enrolling to our target of 150 FNP students every other month starting with our recent end of October start about six weeks ago, which of course is double the previous rate of 75 every other month.

That is the key reason we delivered a 23% enrollment increase at USU this past quarter.

The support group we've hired at USU to prepare for the additional growth of the FNP program included employees in our department of field experience whose job it is to place these licensure students into their clinical experiences, as well as 2 enrollment advisors and full-time faculty.

Therefore, we didn't achieve as much leverage at USU this quarter as we did at Aspen, however we're set-up for strong consistent growth and expect to see better leverage, particularly in the next fiscal year.

Jumping to our pre-licensure BSN campus business plan, as we've previously announced, we're about to begin our first evening/weekend semester in January. Today we have 138 active students in our day program, given that we started our second semester for our day program in November.

We're expecting to add approximately 85 enrollments into our first evening/weekend semester in January, so at the end of the current quarter, we should have approximately 223 total active students in our pre-licensure BSN program.

Starting with our March semester for our day program, and for all semesters in the future, we will be targeting to enroll at least 40 students per semester into our final 2-year core Nursing program.

Previously our target was 30 students into our final 2-year core nursing program per semester, but we want to account for a small amount of attrition and feel confident we can handle a larger cohort every semester if we end up with more than 30 students on a net basis. Then after our first class graduates in mid calendar year 2020 and we obtain NCLEX scores, we will look to enroll at least 60 students per semester on a net basis.

Given the revenue of a final 2-year core Nursing student averages $20,000 per annum, that means when each campus hits its size limit over a 4 year period, which will be a total of approximately 720 core Nursing students, that would derive over $14 million of revenue per annum, per campus.

In terms of an update on our Honor Health campus planned to be located on the north side of the Phoenix metro, we expect to be signing the final agreement with Honor Health by year-end and construction plans call for a build-out timeframe of approximately 6 months.

So we're currently targeting our first semester to begin in July next year. We're expecting our half of the cost of the construction and TI to be about $600,000 which we are planning to expend over the third and fourth fiscal quarters.

We're planning for the Honor Health campus to be a mirror of our current campus, in terms of having both a day and an evening/weekend program which will give us 6 semesters per year. We also plan to enroll over 30 students net into the final 2-year core program per semester.

Because it takes us about a year to begin generating a profit for each campus, our plan at this point is to launch one new campus every year for the next few years.

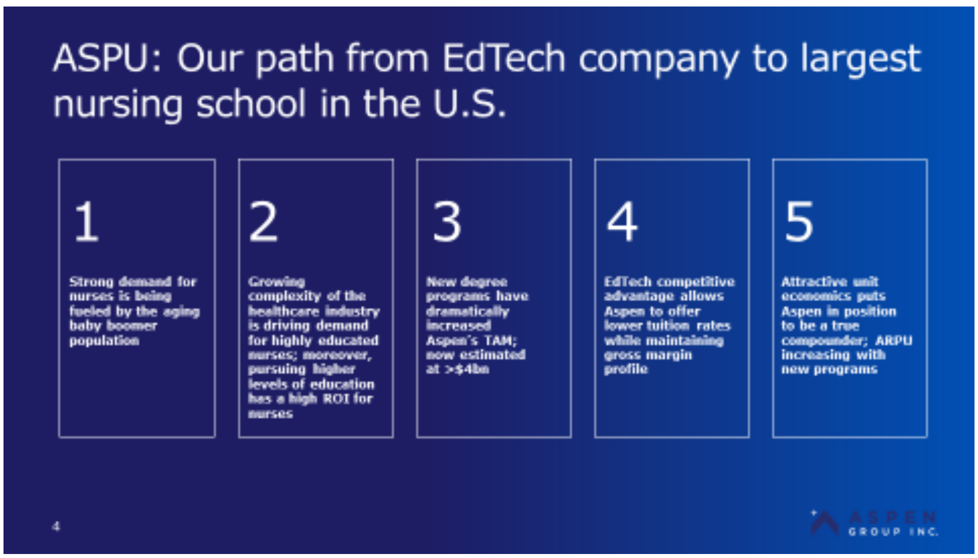
This allows us to balance the company's near term goal of achieving Adjusted EBITDA profitability with this new business that promises to provide very high returns on invested capital. Once we begin to generate cash flow, expect us to accelerate this campus expansion plan.

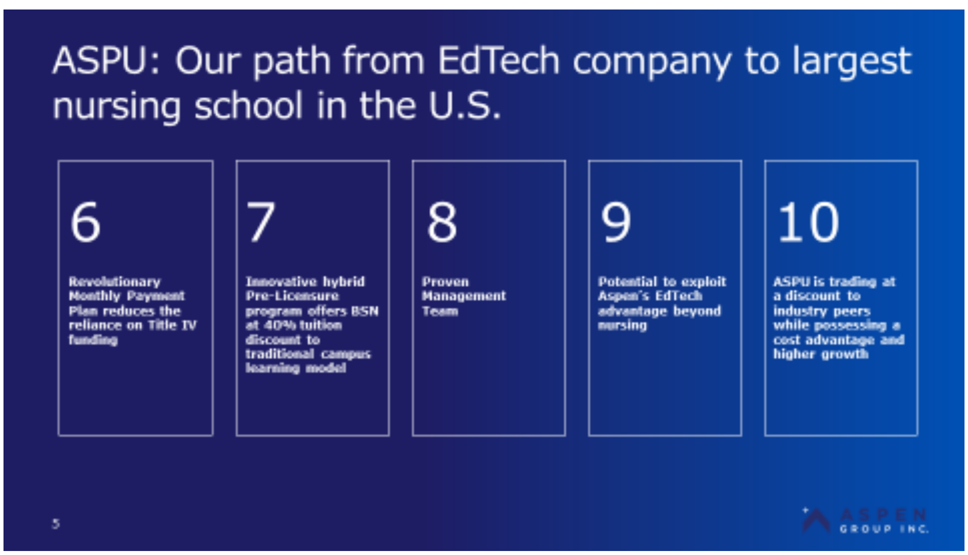
This year of course was our first campus near the airport in Phoenix, next year will be the honor health campus on the north side of Phoenix. And in 2020 we expect to launch a third campus outside of Arizona, and we'll announce details of these plans sometime next calendar year.

Based on these methodical growth plans, we expect to finance our growth internally and through debt financing. As a result, we do not plan to access the equity market in the foreseeable future.

I would like to now discuss why the management team continues to feel that we're a compelling investment. First, please be aware that we uploaded a new investor presentation today on our IR site, aspu.com. Several slides in that presentation provide support for my remarks, so feel free to download this presentation to follow along.

I'll begin by stating that our long-term goal is to leverage our EdTech infrastructure and expertise to become the largest nursing school in the U.S.





We decided several years ago to target the nursing profession because demand for nurses is being fueled by the aging baby boomer population and the growing complexity of the healthcare industry is driving demand for highly educated nurses; and most importantly, pursuing higher levels of education has a high ROI for nurses which we as a company care deeply about.

What makes Aspen unique is that we are capable of offering our Nursing degree programs to students at a 25% to 40% discount to pretty much any other school in the U.S. without compromising the quality of the education we provide our students. We can validate this by comparing Aspen's student outcomes versus the industry. Please see slide 25 for reference.

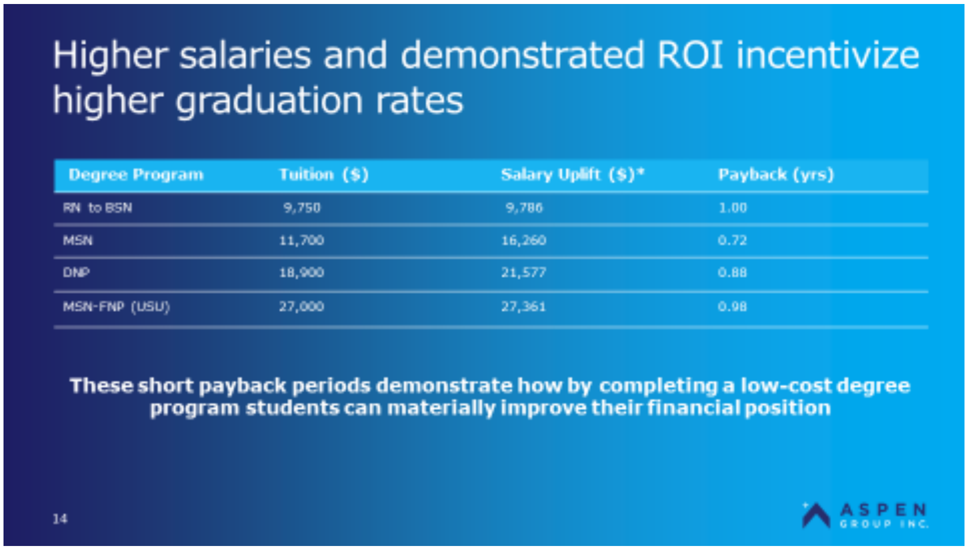
We'd like to focus you on our largest program at Aspen University, our RN-to-BSN program, which accounts for nearly half our student body, and tell you that our graduation rate for this program last calendar year was 76%, as reported to our accreditor.

In addition to offering among the industry's most cost-effective pricing for accredited nursing degree programs, the company has created a disruptive and compelling payment plan for its students.

Unlike the traditional model of paying upfront for each semester, Aspen allows its students to enter into a monthly payment program whereby students pay a lower, more affordable and predictable payment amount each month.

As a result, more students are able to pursue their education goals and when they are achieved, they are not encumbered with long-term debt with interest they must pay off.

In terms of ROI for our students, on slide 14 we show that the payback period is often 1 year or less when comparing the cost of tuition at Aspen relative to the salary uplift these degrees often provide.



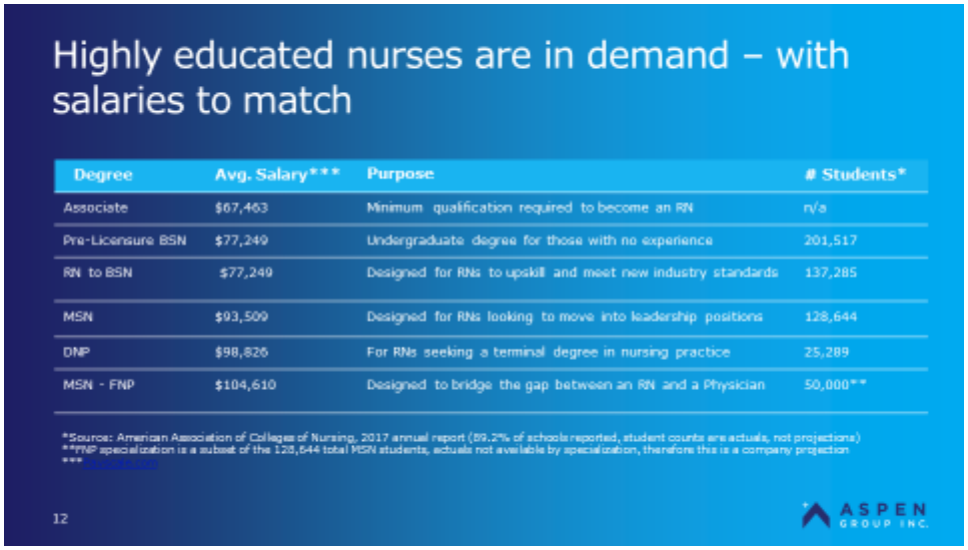
Now that we have described why Aspen provides a compelling value proposition for students, let’s make the case for why it is a compelling investment for shareholders.

Firstly, nursing education is a multi-billion dollar market and there currently is a significant need for more nurses in the United States.

As our slide 17 indicates, we currently estimate our TAM to be over $4 billion, now that we’ve entered the FNP and pre-licensure BSN segments.

Secondly, nurses love their jobs. The average nurse stays in their career for over 20 years. As a result, nurses have a lot of ambition and there is a lot of opportunity within nursing to advance.

Much of the advancement in nursing is tied to advanced degrees and there is a strong correlation between advanced degrees and higher pay in nursing, as outlined on slide 12.

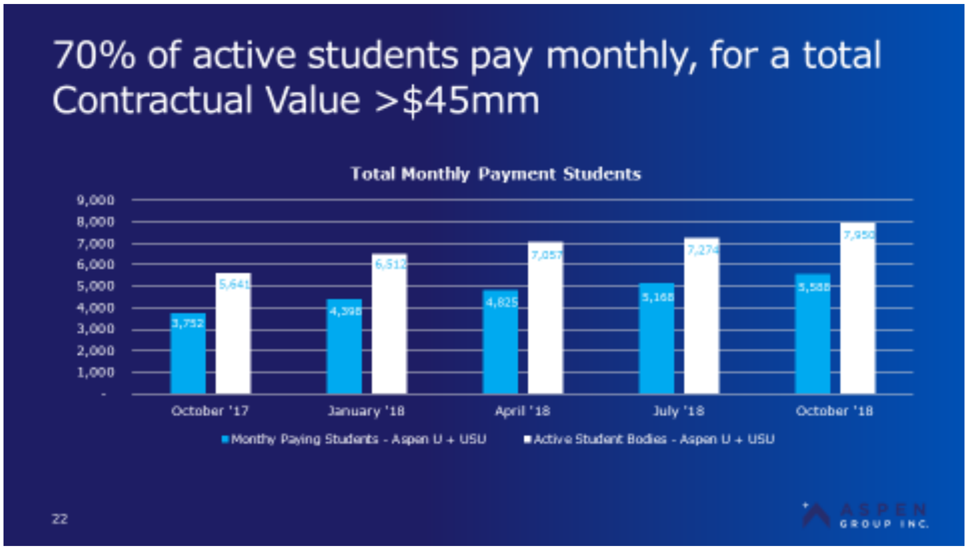


Furthermore, the nursing education industry is well established and growing mid-single digits organically. Aspen has arguably created the best set of unit economics in history within this sector.

To explore this further, on slide 31, you'll see that Aspen pays $1,300-$2,100 to acquire a student depending on the degree program, while competitors typically have acquisition costs 2-3x higher.

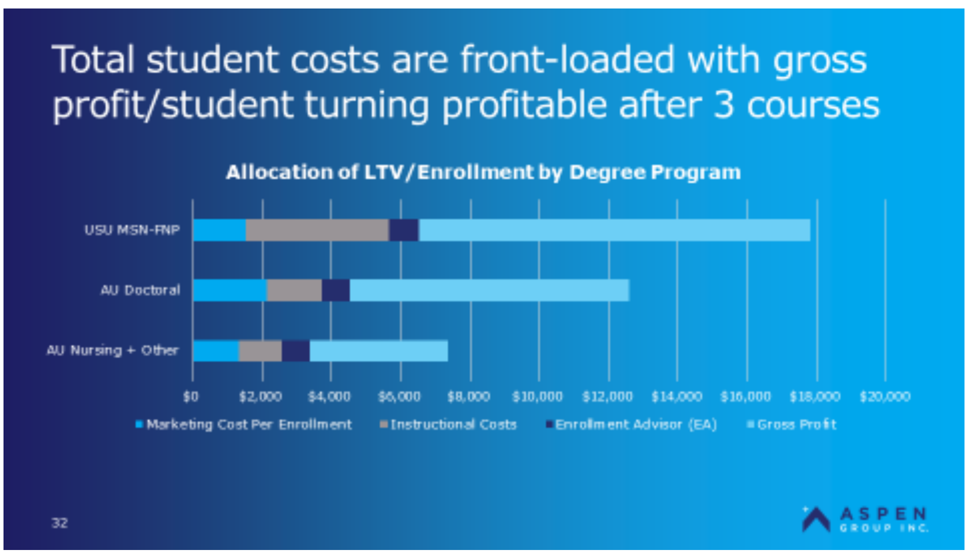
Aspen converts well over 10% of the students that have interest in enrolling on average because it is highly selective in its student selection process whereas the traditional competitors have a conversion rate in the mid-single digits.

Given that Aspen's cost-of-enrollment is significantly lower, the company is able to reduce tuition costs for the students and offer a monthly payment plan, in which 70% of our students today participate as outlined on slide 22.



As a result, Aspen just reported 50% enrollment growth in our most recent quarter, while the industry's largest nursing school with over 30,000 students, Chamberlain, reported mid-single digit enrollment and revenue growth.

As we move forward, note that slide 20 shows that we are focused on increasing our ARPU, which is why we've launched into the FNP and pre-licensure BSN businesses, which will translate to gross margin increases and shorter break-even per student timeframes as outlined on slide 32.



In sum, Aspen has created a highly innovative monthly payment program that allows its students to pay a no interest, low monthly amount instead of having to make the traditional upfront full semester payment to attend school.

As a result, only 21% of Aspen University's students last year took out federal loans versus (other schools are as high as 85-90%), therefore Aspen's online students are able to pay as they go through school and graduate without being encumbered with long-term debt.

In addition, Aspen's tuition is 25%-45% lower than the industry average for nursing degree programs, making it arguably the most affordable nursing school in the country while maintaining well above industry average degree completion rates.

We believe Aspen has created a sustainable competitive advantage that the industry cannot replicate because they do not have the ability to aggressively lower tuition given that would slow their already low single digit revenue growth further.

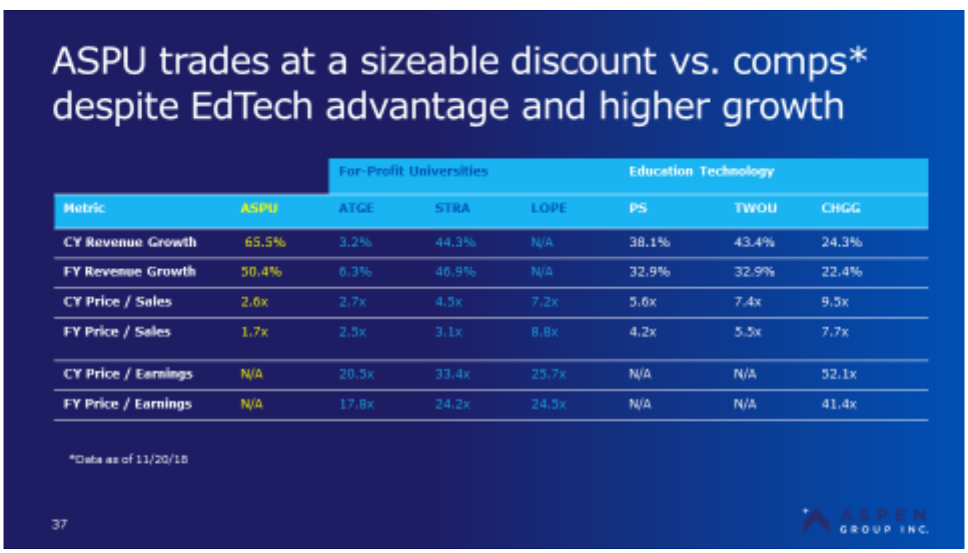
These traditional schools also are not run by technology executives. They have not been able to adjust to the new model that Aspen has created and there is nothing to suggest that they will be able to effectively make the switch.

Aspen is in the early stages of disrupting the market and capturing significant market share over time supported by Aspen's enrollment growth versus the industry. As Aspen continues to innovate and incorporate more technology into its technology stack and curriculum, Aspen's differentiation and market share should continue to increase.

Lastly, slide 37 shows that Aspen is trading just over 4x trailing 12 months revenues based on a 59% growth rate. other for-profit education firms are trading above our multiple with negative to 12% growth at best.

In comparing Aspen to EdTech companies such as 2U or Chegg, they are trading at about twice our multiple relative to trailing 12 months revenues.

Those are our remarks on why we continue to believe we are well positioned and remain a compelling investment today.


ASPU trades at a sizeable discount vs. comps*
despite EdTech advantage and higher growth

		For-Profit Universities			Education Technology		
Metric	ASPU	ATGE	STRA	LOPE	PS	TWOU	CHGG
CY Revenue Growth	65.5%	3.2%	44.3%	N/A	38.1%	43.4%	24.3%
FY Revenue Growth	50.4%	6.3%	46.9%	N/A	32.9%	32.9%	22.4%
CY Price / Sales	2.6x	2.7x	4.5x	7.2x	5.6x	7.4x	9.5x
FY Price / Sales	1.7x	2.5x	3.1x	8.8x	4.2x	5.5x	7.7x
CY Price / Earnings	N/A	20.5x	33.4x	25.7x	N/A	N/A	52.1x
FY Price / Earnings	N/A	17.8x	24.2x	24.5x	N/A	N/A	41.4x

*Data as of 11/20/18

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ASPEN GROUP INC.

Before I complete my remarks today, I would be remiss to not talk about the heroic effort of our employees the past 60 days.

For those of you that aren't aware, Aspen University's every 5-year re-accreditation review was conducted by our accreditor, DEAC, during the month of October.

Because AGI acquired USU a year ago, their re-accreditation review was pushed back from its scheduled review late last year to this past month of November. So, unbelievably, we underwent re-accreditation reviews with Aspen and USU in back-to-back months.

I'd just like to publicly thank every employee of AGI, Aspen University and USU for their tremendous effort and dedication the past two months. As the saying goes, there is no 'i' in team and I have to say I've never been more proud to be leading such an intelligent, cohesive group of people committed to a common goal of making college affordable again.

Again, thank you to all of you at Aspen from the bottom of my heart. You guys are what makes us so special and you clearly proved that the past few months.

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

[Operator Instructions]

Our first question comes from the line of Darren Aftahi with ROTH Capital Partners. Your line is now open.

Darren Aftahi

Good afternoon, Mike and Joe. Just a couple of questions, if I may. So it looks like the trend line on your USU cost of enrollment went down. I'm kind of curious if you could indulge us on what that actual metric was for the three-month period?

Michael Mathews

Are you talking about the cost of enrollment for USU for the last for the period, it's a rolling six months analysis and we indicated it went down into the $1,500 range from $1,700. Improved approximately 10% sequentially.

Darren Aftahi

So what driving, I mean, obviously you're ramping students but is it more a mathematics kind of exercise here? I know in your core Aspen business you see an organic benefit. Is that starting to kick in? Or is it still too early in the lifecycle of the business?

Michael Mathews

Yes, great question. No, I don't think we're seeing much organic value yet. It takes a number of quarters for that for that to kick in. So as I mentioned earlier, I've said this from the beginning of acquiring USU, there is tremendous demand for FNP students across the United States. And we have had a self-limit of 75 students every other month up until our October 30th start. And so from here on out, we're going to now be enrolling 150 students every other month. There's no question the demand is there. We're able to generate the leads at a very effective cost per lead and our enrollment conversion rate is very similar to our traditional Aspen business.

So that's the primary reason you saw a drop in our cost of enrollment, because we opened up the cap and of course came close to enrolling 150 students in October. And that's what generated that extra 50 or so enrollments sequentially.

Darren Aftahi

Great. I guess that kind of segues into my next question. So I think USU Adjusted EBITDA was flat at minus $800,000 roughly sequentially. Given you enrolled a fair amount of students towards the end of the quarter, did timing play an issue? And looking at that metric, can it improve a little bit more?

Michael Mathews

Yes. So we have only had that one start over the 90- day period in which we opened up the cap. So, yes, that's why you didn't see a more significant improvement than that. And depending on the quarter, we'll either have one or two enrollment starts within a given 90-day period. So it just sort of depends how the calendar falls, but on an overall basis you can expect us to be enrolling a minimum of 150 every other month on behalf of USU.

Darren Aftahi

Got it. And just two more questions, if I may. Just the delta between MPP for core Aspen and then USU, I think 71% and 61% respectively. Any reason why USU can't reach Aspen levels? And then my last question, I think on the last call conference call you talked about kind of trend lines in the current quarter for enrollment at Aspen. I'm just curious if you could indulge us with any kind of trends you're seeing in this current quarter? Thank you.

Michael Mathews

Sure. So if you guys look at the history of Aspen, we launched a monthly payment plan in the spring of 2014. So it's been approximately four and a half years. And it took us about four years to hit that 70% mark. And so to be honest when USU almost, right out of the box within a couple of quarters were north of 60%, to be honest I almost fell off my chair. So we've proven twice with two different universities and different types of programs that if a working professional has the opportunity to use financial prudence and put the cost of the education into their monthly budget, they're going to do it 70% of the time. And I think it's inevitable that USU will be 70% or higher based on history.

In terms of enrollment trend lines for Aspen, there is seasonality involved as we kind of mentioned in our remarks, Q2 and Q4 for us are very, very strong seasonal quarters whereas Q1 of course is a bit weaker and Q3 sort of fits in between. So we have the months of November and December which are a little bit weaker seasonally speaking and of course with the holidays we lose some working days. So we naturally are kind of flat from Q2 to flat or slightly down from Q2 to Q3 every year in terms of enrollments. I think last year we were down by about 7%. And I think this year will be a similar kind of result.

Operator

Our next question comes from the line of Eric Martinuzzi with Lake Street. Your line is now open.

Eric Martinuzzi

Thanks. Congrats on the good new student growth in Q2 that's terrific, that 50% number. I wanted to talk a little bit about the full year. I guess the seasonality question there. And you talked about a flat to slightly down, I just wanted to clarify that was enrollments, not revenue as far as Q3 versus Q2?

Michael Mathews

Yes. That was just a question about enrollments not revenue.

Eric Martinuzzi

Okay.

Michael Mathews

Eric, if I could interrupt quickly, I apologize. Darren was asking me specifically about only the Aspen Nursing Core Unit. We're going to be up sequentially in all of our other units, doctoral, USU, pre-licensure campus business. The only one that will be semi flat will be our traditional Aspen core units in enrollments only.

Eric Martinuzzi

Got you, thanks for that clarification. You talked about seasonality in the business. You're obviously having a nice seasonal rise in Q2 versus Q1 on the revenue side. When I look back at last year, last year was a little bit muddy because it was your first quarter, you had a partial quarter of USU, the business was up about $850,000 or $900,000. You've now got a little bit tougher comp that sequential growth Q2 versus Q3, could we still see that a potential $800,000 or $900,000 sequential growth in the top line all in?

Michael Mathews

Eric, the analyst expectations on the top line for Q3, I think, we have a couple of different analysts that are I believe in the $8.8 range. That seems to be in the range for us which would back into what is that about a $700,000 sequential increase.

Eric Martinuzzi

Okay, because I'm thinking also referencing those same analysts' estimates where the analysts are still paying attention. They're talking about roughly a $35 million a year. To get there you've got to do $20 million in the back half, so that would imply, and we're forecasting a substantial step up in Q4, but that would also suggest almost an $11 million or so in Q4 to get to that amount implied for the year. Is that in the cards? Is that a stretch goal? Or is it more realistic to think, there's yes a seasonal step up but just not quite there.

Michael Mathews

Yes. So every year in Q4 we see the biggest sequential step up for the year. And we expect a giant step up in Q4. We're not currently guiding on revenue for Q4. So we'll make some comments on that 90 days from now.

Eric Martinuzzi

Okay and then you talked a little bit about your cash needs, it was good to see you get some more revolver having that flexibility there. And also the fact that you don't plan to draw on that credit facility in 2019. What would be the path to adjusted EBITDA breakeven if that's not going to happen in fiscal 2019, is there an expectation in fiscal 2020 and then in which quarter or which half do you expect to cross that threshold?

Michael Mathews

Well, okay. Let me first of all talk again about what just happened. I think you guys noticed that we had a revenue increase of approximately $874,000 and on the gross profit line we literally almost dropped down the entire amount. So if that didn't impress our shareholder base, what else can we do other than stand on our heads. So we clearly have tremendous leverage in our business model.

From a cash point of view you, you can see we went from a $4.2 million cash burned, we dropped all the way down to $2.7 million right, and so it was --and from an operating cash usage point of view the decrease sequentially was in my opinion a breathtaking $1.3 million. So as I specifically told everyone Q1 was going to be the high point if you will of losses and cash burn and that every quarter after that was going to show really nice improvement and leverage.

And so I can't stress enough how proud we are of what we've been able to do and we did exactly what we said we would do. Now from a go-forward perspective, we're not calling for positive adjusted EBITDA for Q4 at this point, but if we don't hit it it's not going to be far off. So what can I say, we will be positive for next fiscal year and maybe Q4 we'll see, but hopefully you can hear in my voice the tremendous confidence level that we are on a path to become profitable in the coming quarters and continue to have excellent growth.

Eric Martinuzzi

Yes, that was some tremendous incremental margin there between Q1 and Q2. You talked a little bit about the one new campus each year for the next few years. I think that maybe you've mentioned it before, but I don't think so. What was the discussion at the board level as far as how hard do we press on the accelerator in the pre-licensure program?

Michael Mathews

That's a great question, Eric. We have a tremendous board and they're very, very involved in these kinds of critical decisions. And to be honest in a perfect world, if we had all the cash in the world, we believe we have the ability to launch 10 to 15 campuses in the next 7 to 10 years. And we believe that we have a very differentiated pre-licensure business model that will allow us to succeed in every major city that we go to. On a short-term basis, I've heard from a lot of shareholders that, "Mike, we love your growth and you've launched into two new businesses and those businesses have tremendous unit economic potential. But we want to see that this business has a lot of leverage. And we don't want you guys to only focus on growth and not also worry about being adjusted EBITDA and cash flow positive."

So we're trying to balance those two things certainly for the next 12 months.

Eric Martinuzzi

Yes. I understand that perspective. I think you have gotten into a lot of growth vectors, just if I look back a year ago when it was relatively simple BSN completion company. And you've been doing several different things beyond that. So I think it's a proven course to kind of balance and digest. And I'm interested to see how things go here once we're in kind of a normalized run rate. So congrats on the quarter and good luck for the rest of the year.

Operator

Our next question comes from the line of Mike Malouf with Craig- Hallum Capital Group. Your line is now open.

Michael Malouf

Great, thanks guys for taking my question. And welcome to the calls, Joe. If I could just get a little bit more clarity on the pre-licensure program. It sounds like you kind of narrowed down the model to do $14 million in annual revenues once it's mature. Is that doing 60 per semester? Is that what the goal is for each one?

Michael Mathews

Good afternoon Mike by the way. Yes, so again we initially enroll for the first couple of semesters as you know we've been targeting enrolling 30 students into our final two-year core nursing program per semester. And again we now have six semesters per year. We just announced today that we're going to start to increase that already. We're going to start targeting about 40 students into core nursing program per semester accounting for a little bit of attrition. So that we net more than 30 every semester going forward. So I was guiding that we're very confident in the program, confident in the demand and we're confident in our academic team and in our professors at this point.

So we're ready to start growing methodically. And after two years, we'll have NCLEX scores which are obtained approximately in the summer of 2020. We will then move to 60 students on a net basis every semester. So once you have two years of enrolling 60 students per semester over six semesters, you end up with about 720 students in that final two-year core program. And the average revenue is about $20,000 a student so that gives you $14.4 million in the core nursing program.

Michael Malouf

Great, that's really helpful. And then when you take a look at margins can you give us a sense of where you think the margins would end up on these programs? I'm sure you've kind of run the numbers now that you've been operating a while.

Michael Mathews

Yes we have. But it's still a new program, and I would say to you that there's the potential for us to be north of 30% operating margins for this business which is higher of course than our traditional Aspen nursing business.

Michael Malouf

That's great. And then can we just switch a little bit to the Family Nurse Practitioner market. It looks like you've bumped that up as of October to 150 every two months. Is that where you expect to be for the next couple of years or do you think that there's some chance to raise that as well?

Michael Mathews

Our plan right now is to remain at that constant level. That will provide us a very, very large FNP program a couple years from now. And you have to understand this is not the RN to BSN program at Aspen where there is no licensure program at the end of the degree program. So it's a very structured program. The students have to be placed exactly a year into the two-year structured program. And so we feel like that is a good size for this program over the next couple years. We'll reassess it maybe a year from now, but for the next 12 months, the academic team is comfortable with that 150 mark every other month.

Michael Malouf

Great. And what would that be on a revenue basis once it's at maturity?

Michael Mathews

We're looking to be north of 2,000 students a couple years from now.

Michael Malouf

Okay and then those are at, what's that rate at again?

Michael Mathews

Yes, the LTV rate now, we're calling the LTV to be $17,820. That's per enrollment. And of course there's some attrition in that. The program is about $27,000 for those that graduate including fees.

Operator

Our next question comes from the line of Jamie DeYoung with Goudy Park Capital. Your line is now open.

Jamie DeYoung

Thank you. Good afternoon Mike. Good afternoon. Joe. Congrats on the strong quarter. Just couple of quick questions. I just want to follow up on the FNP, if I may please. Looks like your 493 enrollments for the first half of this year, you are going to see acceleration in the second half. You're likely to finish this year around 1,100 enrollments. And then next year you're going to have another 1,200 -1,300 enrollments. So isn't the run rate kind of going in the next year going to be around $9 million? I mean shouldn't you pick up another $3 million or $4 million, so you should have a 100% plus year-over-year growth in that program.

Michael Mathews

Yes. That's exactly what our forecast suggests, yes, you're correct.

Jamie DeYoung

Okay, great, that's helpful. Then I want to ask you how many clinical relationships do you now have set up in the field?

Michael Mathews

Since we started the program --are you asking about at Aspen University or USU FNP?

Jamie DeYoung

I'm asking more USU FNP.

Michael Mathews

Yes, now that we have several hundred students in our FNP program, my Director of Field Experience told me recently that we're now north of 150 clinical partnerships already.

Jamie DeYoung

Well, that's terrific. So I just want to drill down on the pre-licensure business if I may. So you said in the detailed presentation that you provided that the RN to BSN grad rate was 76%. So I know it's early in pre-licensure but if that's a $48,000 degree program, if you're getting $40,000 on average per student that works out to about an 83% graduation rate. So you should see a nice uptick in that program. So what is the cost that early students that you've acquired? What's that cost to acquire students for that program?

Michael Mathews

Yes, you probably won't believe this, Jamie, but we spent about $25,000 between May and our July start. And we've spent de minimis amounts of money since. So the cost of enrollment has been literally less than $100. It's been almost immaterial. The demand in the Phoenix area once we launched our radio campaign, hundreds and hundreds of applications flowed in. And that's why we decided to launch a second campus in Phoenix. And it's also why we think that we will be wildly successful in every major Metro that we go to. If you look at Chamberlain College of Nursing, they charge $85,000 for tuition and we're $47,000 all in with fees.

This is a huge difference. We haven't yet called an LTV to date on the pre-licensure business, but you're not far off. But at this point we would probably guesstimate about an 80% graduation rate based on our initial attrition. And that would suggest an LTV that's in the high $30,000 range per enrollment. So that's basically saying that we think that this business could potentially have double the LTV rate of our FNP program at USU, which is just under $18,000.

Jamie DeYoung

Yes. That would be fantastic. So then just finishing here on pre-licensure. So as you're ramping this evening program, are you looking for around $3 million in revenue for the contribution from that degree program next year on the top line. Is that reasonable?

Michael Mathews

$3 million for next year.

Jamie DeYoung

Yes.

Michael Mathews

Yes. We're calling for revenues that are higher than that. But, yes, I mean it's at least three, yes.

Jamie DeYoung

Okay, great. My only recommendation might be given you had another strong quarter 67% growth. I might --if you decide to give guidance in the future, I might consider giving flat guidance for next year. Maybe you’ll get some credit to your growth.

Michael Mathews

I wasn't sure what you meant. I understand, yes. That's true (laugh).

End of Q&A

Operator

Thank you. We have no further questions at this time. I would now like to turn the call back to Michael Mathews for any further remarks.

Michael Mathews

Thank you everyone for your questions. And I want to thank everyone for joining us this afternoon. 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 does conclude today's program. You may all disconnect. Everyone have a great day.