

Aspen Group, Inc. (NASDAQ:[ASPU](#)) Q4 2020 Earnings Conference Call

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Company Participants

Michael Mathews - Chairman & CEO

Frank Cotroneo - CFO

Conference Call Participants

Darren Aftahi - ROTH Capital Partners

Eric Martinuzzi - Lake Street Capital Markets

Jeremy Hamblin - Craig-Hallum

Austin Moldow - Canaccord Genuity

Lee Cooperman - Omega Family

Operator

Good afternoon. Welcome to Aspen Group's Fiscal Year 2020 Fourth 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 the expansion of the highest LTV programs, revenue growth estimates and G&A trends, timing of new campus openings and accounts receivable improvement expectations.

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 the prospectus supplement and the 10-K filed with the Securities and Exchange Commission and 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 EBITDA, Adjusted EBITDA, 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 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. Please note that earnings slides are available on Aspen Group's website, [aspu.com](#) in the Presentations page under Company Info.

Now, I'd like to turn the call over to Michael Mathews, Aspen Group's Chairman and Chief Executive Officer.

Michael Mathews

Good afternoon, everyone.

I will begin the call today by discussing how the company significantly improved its gross margin on a sequential and year-over-year basis while maintaining our strong growth rate of 38% in Q4 and 44% for the full year. Then I will recap our operating metrics from Q4 and provide an update on our business thus far in Q1 as I'm sure everyone is interested in an update given the COVID-19 crisis and the related uncertainty.

Finally, I will provide detailed regulatory and operational updates on our new planned campus openings later this year in Austin and Tampa as well as announce the tele-health partnership for USU's nurse practitioner program. Frank Cotroneo will then follow with a review of our financial results.

Starting with Slide 5 of our earnings slides, revenue for Q4 increased 12% sequentially by over \$1.5 million to \$14.1 million and on a year-over-year basis increased \$3.9 million or 38%. During our annual year-end audit, we did record a one-time revenue adjustment of \$480,000 in the quarter, which we will discuss in more detail later in the call. For the full fiscal year, revenue increased by \$15 million to \$49.1 million or 44%.

One of the major highlights of the quarter was the fact that our marketing spend only increased on a sequential basis by \$200,000 which translated to our marketing spend as a percentage of revenue dropping from 20% to 19% in Q4 and then for the full year marketing spend as a percentage of revenue dropped from 27% in fiscal year 2019 all the way down to 19% in fiscal year 2020.

In addition, instructional cost as a percentage of revenue for the quarter dropped sequentially from 21% to 19% and for the full year remained at 20%. Consequently, not only have we seen improvement in our unit economic model as we've grown 44% year-over-year, in fact we were able to drop 77% of the revenue increase this year to the gross profit line, which translated to a year-over-year gross margin improvement of 800 basis points from 51% to 59%.

In his prepared remarks, Frank will walk you through how this gross profit improvement together with G&A spend decreasing as a percentage of revenue has led to impressive improvements to our bottom line. One major highlight I'd like to mention though is the fact that our EBITDA result for the year improved by \$5.1 million on a revenue increase of \$15 million, meaning that 34% of the revenue increase this year flowed to the EBITDA line.

There's two reasons for this outstanding gross margin improvement. One, we're focusing most of our marketing spend increases on our highest LTV degree programs which is of course our Aspen BSN pre-licensure program in Phoenix and our MSN-FNP program at USU. These two businesses have now grown to 46% of total AGI revenues.

Second, on Slide 7, we show that our cost of enrollment in Q4 at both universities compared to last year declined by double digits. Aspen dropped 10% from \$1,420 to \$1,284, and USU declined 12% from \$1,619 to \$1,423. Given our weighted average cost of enrollment in Q4 declined 10% year-over-year from \$1,462 to \$1,315, that translated to our year-over-year marketing efficiency ratio, or MER, improving 38% at Aspen University to 10.9x and a 14% improvement at USU to 12.5x.

Continuing with operating metrics for Q4 on Slide 8, note that new student enrollments in the quarter increased 14% year-over-year to 1,776. Quarterly bookings increased 36% to \$26.6 million and our average revenue per enrollment or ARPU increased 19% to \$14,973. For the full year, enrollments grew 32% year-over-year to 7,668 and our full year bookings increased 68% to \$111.3 million. By driving fiscal year-over-year enrollment growth over 30% and bookings growth of nearly 70%, we anticipate this to translate into a top line growth rate of at least 30% or \$63.8 million of revenue in this fiscal year 2021.

In terms of an update on the current quarter given the ongoing pandemic, we indicated in our update last month that we saw a moderate slowdown in our Aspen University post-licensure online nursing degree program enrollments between mid-March and end-April and that we saw a bounce back throughout the month of May.

We're pleased to report today that total enrollments were up year-over-year by over 40% in the months of May and June, so we're working on an impressive enrollment result for Q1.

That said, last July, you may recall, we announced the termination of the 72 month monthly payment plan for the MSN-FNP program at USU. Now we only offer a hybrid payment plan where the FNP student pays monthly for 24 months to satisfy the first-year liability of \$9,000. So now the second year liability of \$18,000 must be paid through conventional payment methods. When we announced that change last year and set an enrollment deadline of July 31, 2019 for the legacy payment plan, we saw a record flow of nearly 250 enrollments at USU in the month of July. So that of course makes for a challenging year-over-year comparative of 1,929 AGI enrollments last year in Q1. But given our results in May and June, we should safely deliver well over 2,000 enrollments for the company this quarter.

This impressive bounce back since April begs the question of whether the COVID-19 crisis has, in fact, provided a tailwind for our business and that does now appear to be the case for the following reasons.

If you're an RN that have been on the frontlines and has been asked to work 12-hour days for weeks on end, you might allow yourself the thought of how nice it would be to become a nurse practitioner and work in a private practice and be able to set your own hours. We've heard many prospective students for our USU MSN-FNP program tell us that this is the goal that they're now looking to achieve. So as a result, our enrollment growth at USU has been unaffected by COVID-19 and arguably helped by it.

Second, our BSN pre-licensure program targets primarily millennials, many of which live with their parents and work part time in the services industry. This demographic was

economically hit hard by the pandemic as service industries like restaurants and hotels, for example, were forced to implement broad layoffs and/or furloughs.

Consequently, BSN pre-licensure enrollments have remained robust in the Phoenix metro as we've heard a number of these prospective students communicate that this is a good time to begin or continue their dream of becoming an RN as many are currently out of work.

So to recap, our two highest LTV programs that as of Q4 now represent 46% of total revenue, both have felt a tailwind during this difficult time, so we feel fortunate to be one of the minority of companies that is faring well during this health crisis.

Now for an update on our Phoenix pre-licensure business and upcoming campus openings in Austin and Tampa. In terms of Phoenix, we've received a number of questions from shareholders as to whether we've needed to slow down pre-licensure enrollments in our Phoenix metro given we now have over 1,500 active students in the program as of fiscal year-end.

The short answer is no. We have no plans to slow down enrollments given at fiscal year-end we had approximately 400 active students enrolled in our final two-year core nursing program across both campuses with the remaining 1,100+ active students in the first year prerequisite phase of the three-year program.

Remember that we offer six semester starts per year in both Phoenix campuses or 12 semester starts per year in the metro which still provides us the ability to grow the final two-year core program student body to approximately double the size of where it was as of fiscal year end. To date, we have not had to waitlist any students nor do we expect that to occur this fiscal year 2021.

Additionally, we have leased an additional suite on the ground floor at our main campus facility in Phoenix (by the airport) to further expand our clinical space in anticipation of future pre-licensure student body growth and to begin offering weekend immersions to our MSN-FNP students at USU. We expect this additional clinical facility in Phoenix to be open this coming September.

Moving to our planned openings in Austin and Tampa, as previously disclosed, the regulatory process to open a nursing campus in a new state requires approval from the State Boards of Education and the State Boards of Nursing. COVID-19 slowed the regulatory process slightly as we weren't able to obtain all approvals in each state by the end of May as we had planned.

In Texas, we have received approval from the Texas Higher Education Coordinating Board and the Texas Workforce Commission, but we're still awaiting approval with the Board of Nursing.

In Florida, we have approval from the Board of Nursing but we're still awaiting approval from the State of Florida Commission for Independent Education. We're confirmed to be on the agenda in late-July for both of these regulatory bodies, so we're hopeful our approval process in both states will be wrapped up in the next three and a half weeks.

Now we have some good news in Texas to convey. We've struck a deal with National American University (or NAU) to occupy approximately 7,200 square feet of their campus in the suburb of Georgetown, Texas which is approximately 10 miles north of Aspen's future Frontier Crossing campus in the suburb of Round Rock.

In exchange, Aspen as subtenant, at no additional costs, shall have the right to utilize all of the existing furniture, fixtures and equipment owned by NAU and will convey all such furniture, fixtures and equipment to Aspen via a bill of sale for \$10.

As a result, Aspen University is now targeted to commence its first semester in September, 2020 rather than our original planned start date of November, and we plan to share the campus with NAU until January, 2021 when NAU will have completed the teach-out of their remaining 12 nursing students. Post January, 2021, we will move all of our Aspen campus operations and student body to our new facility in Round Rock.

So in terms of estimated start dates, Tampa is now scheduled to begin in November rather than our original plan of August. And as I said, Austin is now targeted to begin in September rather than our original plan of November.

Our internal revenue forecasts for Tampa and Austin for this fiscal year remain in the same range given one campus will open a few months earlier than planned and the other will open a few months later than planned. Again, these planned start dates are contingent on our obtaining final approval in both states which we're anticipating will be completed at the end of the month.

Finally, we issued a press release earlier today announcing our clinical affiliation partnership with American-Advanced Practice Network or A-APN, a national clinical network for advanced practice nurses that provides comprehensive healthcare and nursing services at outpatient centers and clinical facilities throughout the U.S.

The services are delivered through A-APN's CareSpan, an integrated digital care platform or 'clinic-in-the-cloud' as they call it to provide in-person and remote patient consultations. This is a critical tele-health partnership for the company because our USU MSN-FNP students can now complete their required in-person clinical hours with A-APN throughout this COVID-19 crisis and thereafter, and as a consequence we anticipate few if any delays in our students' planned graduation dates.

Now I'll turn the call over to Frank to review our financial results for Q4.

Frank Cotroneo

Thank you, Mike, and good afternoon, everyone. I'm going to begin by reviewing our financial results for the 2020 fourth fiscal quarter and then make some observations on our financial progress.

To begin, as Mike indicated, revenue in the fourth quarter increased sequentially by \$1.5 million to \$14.1 million. Q2 and Q4 continue to be our strongest seasonal quarters given those are Aspen's post-licensure nursing + other unit's strongest seasonal quarters. This unit now represents 54% of the company's revenue.

The remaining 46% of revenues are from our USU subsidiary with the MSN-FNP program accounting for the vast majority of their revenue and our Aspen BSN pre-licensure program today in Phoenix.

These are our highest LTV businesses and to date have not shown any seasonality. These businesses delivered \$1.2 million of the \$1.5 million sequential growth this past quarter and without question are the main engines of our growth plans in future years. In fact, we're forecasting these two businesses to account for over 50% of our revenue sometime in the second half of this fiscal year 2021.

Please note that during the company's standard year-end revenue testing procedures, we determined that our earned revenue report at Aspen University inadvertently wasn't reporting credits issued to withdrawn students for certain de minimus technology fees. Note that all invoices and credits issued to students were and are correct and their student ledgers were and are accurate. So this earned revenue reporting error has no effect on our student body. For fiscal 2020, this incorrect earned fee calculation amounted to \$480,000. Consequently, revenue for the fourth fiscal quarter is \$14.1 million rather than the pre-announced revenue estimate of \$14.5.

Aspen Group's gross profit in the fourth quarter increased to \$8.35 million or a 59% margin which is up from 56% a year ago or an increase of 300 basis points. Both universities were responsible for this improvement as Aspen and USU's gross margin in the quarter was 60% and 63%, respectively.

As Mike indicated earlier, our gross profit for the year increased \$11.5 million year-over-year while revenue increased \$15 million, meaning 77% of the fiscal year revenue increase dropped to the gross profit line. As Mike said earlier, this also represents 34% of the revenue increase this year flowing to the EBITDA line.

Marketing efficiency was the primary factor responsible for this impressive result. Our full year marketing expense increased \$400,000 over the prior year, while our revenue increased \$15 million. This is the best example I can give to demonstrate the efficiency of our marketing spend.

As our business mix has changed shifting more focus to higher LTV programs, the average cost to acquire a student to these higher LTV programs is in line with our historical average cost to acquire a student. This marketing efficiency is what's primarily responsible for fiscal year gross margin expansion of 800 basis points.

In the quarter, our total cost of revenue dropped from 42% to 39% of revenue. Marketing as a percent of revenue year-over-year declined from 27% to 19%. Aspen University's marketing costs represented 18% of Aspen University's revenue for the quarter while USU marketing costs dropped down to only 16% of USU's revenue for the quarter.

Instructional costs and services as a percentage of revenue remained flat at 20%. Aspen University instructional costs and services represented 18% of Aspen University's revenue for the quarter while USU instructional costs and services equaled 21% of USU's revenue for the quarter.

The primary driver of the year-over-year growth in G&A is headcount and related expenses of \$4.1 million. Managing G&A expense growth continues to be a priority as we invest to support our revenue growth on our path to sustainable profitability.

Recurring G&A costs, which are G&A less non-recurring items, for the quarter were approximately \$7.6 million compared to approximately \$6.3 million during the comparable period a year ago, an increase of \$1.3 million or 21%.

Note that for the full year, recurring G&A increased by \$4.5 million or 30% year-over-year while revenue increased \$15 million or 44%, meaning the recurring G&A growth continues to track at or below 50% of revenue growth.

Moving forward, we expect the growth rate of recurring G&A expenses to stay at or below 50% of the revenue growth which will be a significant contributor to improving financial performance.

Net loss applicable to shareholders was approximately \$(700,000) or a diluted per share of \$(0.03) for the quarter as compared to a net loss of \$(1.6) million or \$(0.09) per share for the comparable period a year ago, a reduction in the loss of approximately \$900,000 or 56%.

Aspen University generated approximately \$1.9 million of net income for the quarter and USU experienced net income of approximately \$600,000 while AGI corporate incurred \$3.2 million of expenses in the quarter.

The company reported Adjusted EBITDA of \$1.4 million for the quarter. Aspen University delivered \$3.1 million or 31% Adjusted EBITDA margin highlighted by its pre-licensure unit in Phoenix delivering \$800,000 or 36% Adjusted EBITDA margin. USU delivered \$700,000 or 17% Adjusted EBITDA margin in the quarter.

With regard to our liquidity position, Aspen Group ended the quarter with approximately \$17.9 million in cash and restricted cash, up from \$10 million a year ago. This was driven by net inflows from financing of \$17 million partially offset by cash used from operations and investing activities of approximately \$9 million.

Stepping back to the specific numbers for the fourth quarter, I'd like to discuss our focus as a company on our accounts receivable and working capital. Total accounts receivable net of allowance was \$21 million. The increase in total A/R reflects our strong revenue growth of 44% combined with certain students paying using the MPP program at both Aspen and USU.

During the fourth quarter, we carefully evaluated our long-term MPP accounts receivable and made the decision to write off all pre-2018 MPP receivables for non-nursing students. Based on our review of accounts receivable, overall revenue growth trends and changes in our mix of business, we evaluated our reserve methodology and increased our reserve for Aspen by \$720,000 and by \$60,000 for USU also in the fourth quarter of 2020. Note that the bad debt allowance balance started the year at \$1.25 million and ended the year at \$1.75 million.

On a go forward basis, as you know, our two highest lifetime value programs are Aspen's BSN pre-licensure and USU's MSN-Family Nurse Practitioner programs. These programs are our fastest growing programs and now represent 46% of fourth quarter revenue and 40% of total revenue for the fiscal year. We expect the revenue from these programs to continue to grow as a percentage of our total revenue as we continue to expand our campus footprint from two to 10+ campuses over the next three to four years.

This change in our business mix will drive a meaningful change in our accounts receivable and our allowance for doubtful accounts. The BSN pre-licensure program and the second academic year of the MSN-Family Nurse Practitioner program require payment prior to the start of each term. This means that later this fiscal year, approximately 90% of all revenue from these two programs will be paid in advance, meaningfully reducing our accounts receivable and the allowance for doubtful accounts as a percentage of our total revenue.

As revenue from these programs continue to grow as a percentage of overall revenue, we will see a corresponding increase in our cash flow from operations that will allow AGI to turn cash flow positive and generate positive free cash flow over time.

In summary, we saw a reduction of our net income loss year-over-year of approximately \$3.6 million and our cash used from operations improved year-over-year from \$10.2 million in 2019 to \$5.7 million in 2020 or an improvement of \$4.5 million.

We expect that our year-over-year pace of improvement to continue or potentially accelerate this fiscal year and look forward to providing our shareholders updates as this fiscal year unfolds.

That concludes our prepared remarks. I'll now turn the call back to the operator for questions.

Question-and-Answer Session

Operator

Our first question comes from the line of Darren Aftahi from ROTH Capital Partners. Your question please.

Darren Aftahi

Hi, guys. Thanks for taking my questions. Hope you're well. Two if I may. First, so the marketing spend as a percentage of revenue dramatically decreased year-on-year, kudos to that showing of efficiency and the operating leverage. I'm just kind of curious if you'd give us thoughts – I know you gave us thoughts on revenue but thoughts on kind of marketing spend as a percentage of revenue in 2021?

And then my second question just very high level, COVID's making the ability to kind of track companies a lot more difficult. Obviously, this is a tailwind because you're sort of an online business first. Mike, I'm curious with this clinic-in-the-cloud and CareSpan partnership, does that make you rethink the number of pre-licensure campuses you

would need long term and whether you'd want to actually own a technology like this longer term, and is there kind of a cost benefit analysis that goes with that? Thanks.

Michael Mathews

Thanks, Darren. It's Mike Mathews. So, what I would say to you is that we're pleasantly surprised that our ability to reduce our lead costs throughout the year as well as the low cost of enrollment for our pre-licensure program, those are two of the main variables or components that allowed us to only spend 19% marketing or \$400,000 increase year-over-year and obviously achieve a \$15 million revenue increase. So that percentage at 19%, it is not something we anticipate maintaining that amazing result. We are going into a couple new metro markets this year of course, and so we don't expect that the cost per enrollment is going to be as low as it's been in Phoenix. So, I would say to you that we'll probably end up kind of in between percentage wise a year ago – fiscal year '19 we were at 27%, this year of course 19%, we'll probably end up somewhere in the middle of that range, so low-to-mid 20s.

And the second question you asked is an interesting one. I mean, obviously none of us know how long this pandemic is going to last, and I think all nursing schools across the country, both non-profits as well as the for-profit community, have been really pleasantly surprised by how flexible the Boards of Nursing have been in the states that we work in allowing us to do all of our clinicals and simulation activities virtually. This is a critical partnership for us, just to repeat what we said in our earnings remarks. There is a requirement for nurse practitioners to have a certain minimum number of hours that are done in person, and the telehealth partnership is considered to be an in-person clinical. So that was a major accomplishment for us to ensure that our FNP students don't have graduation delays. And if there's a graduation delay of course, we would have a revenue delay, and because of this partnership we look to be in good shape. There's no question that everything's changed from an online education perspective, now that all universities, both for-profit and non-profit, are looking to the long term for how do we create a scenario where we can maintain 100% online curriculum for all programs. So, we would absolutely look at potential opportunities for not just partnership but potentially acquisitions like in some of these software fields and some of these services fields on a go-forward basis. So, you're anticipating something that we're actually thinking about, yes.

Darren Aftahi

Great. Thanks, guys. Good job.

Operator

Thank you. Our next question comes from the line of Eric Martinuzzi from Lake Street. Your question please.

Eric Martinuzzi

Yes. I wanted to find out a little bit more about the revenue issue. Just wanted to make sure we've kind of got it ring-fenced here to fiscal 2020. First of all, is it just the fiscal

2020 issue? And then is there a potential issue here with internal controls that we need to be prepared for when the K comes out?

Michael Mathews

Yes, no problem. In fact, we did file the K this half hour. So yes, as we mentioned in our earnings remarks and in the press release, I want to first start off by saying that approximately a year ago we began the process of completely restructuring our finance and accounting department now headed by Frank Cotroneo, our great CFO. And quite honestly the fact that they caught these de minimus credits for technology fees during our annual revenue sampling process gives me incredible comfort that if they can find something this small that there's nothing more significant beyond that. So we absolutely caught this reporting error that was in our accounting system. It's fixed. We don't anticipate any issues going forward. And from a Q1 perspective there should be approximately a \$300,000 other expense number that will hit us in Q1 and that's it.

Eric Martinuzzi

Okay. And it was just contained within fiscal '21, so you caught it before we put the K together.

Michael Mathews

Exactly, yes.

Eric Martinuzzi

Okay, all right. And then you talked about the coming year, a comfort level with \$63.8 million in revenues for fiscal '21. Given the way the enrollments were impacted by COVID, because I know the enrollments were pretty steady for USU and for the pre-licensure BSN, but how is the seasonality of the year impacted? I understand your comfort with the fiscal year revenue estimate is \$63.8, but how is it different quarter-by-quarter than it might have been otherwise?

Michael Mathews

Yes, that's a great question. I appreciate that, Eric. So, the company, because now 46% of our revenues are with the FNP program of USU and of course the pre-licensure business in Phoenix, those two businesses are not seasonal at all. They're structured programs where unless you do a leave of absence you have to continue onward from term to term and semester to semester. So as you guys I'm sure well know, Q1 historically, particularly in the last 2 fiscal years, has been relatively flat. We do not anticipate our revenues in Q1 to be flat as a consequence of these two programs becoming a much bigger part of our overall business and the fact that we were very surprised, and pleasantly surprised, that our enrollments in the last two months, the months of May and June, are up over 40% year-over-year, so that will help our revenue as well in Q1. We're not giving guidance for Q1. We typically only provide guidance on revenue on a year-over-year basis which we just did, but we do not anticipate the revenue to be flat as we have in the past two years. So, that's the good news.

Eric Martinuzzi

I understand. Thanks for taking my questions.

Michael Mathews

Thank you, Eric.

Operator

Our next question comes from the line of Jeremy Hamblin from Craig-Hallum. Your question please.

Jeremy Hamblin

Thanks guys, and congrats on the momentum in the business. I wanted to just come back to understanding how the model is transforming here from a margin perspective and reconcile the commentary around your sales and marketing costs with your Adjusted EBITDA number. So I think you noted that by the second half of this year your pre-licensure program plus FNP is going to be more than 50% of all revenues in the back half of the year. It looks like your margins are mid-30s in the pre-licensure program and high-teens in the FNP side of your program. In terms of putting that together to think about the picture of how this transformed, it would seem that this acceleration on margin should continue to build momentum in 2021. But if you're kind of suggesting your marketing and promotional I think you said it was going to be in the kind of 22%-23% range, did I catch that right in terms of how we should think about modeling that, can you just provide or help me reconcile those two items a little bit?

Michael Mathews

Yes, we mentioned earlier in the Q&A that we're looking at marketing as a percentage of revenue to be in the low-20s this year. Tell me your question again besides that?

Jeremy Hamblin

Yes, just in terms of putting together the EBITDA margins you disclosed around your pre-licensure and FNP programs with your pre-licensure in the mid-30s EBITDA margin and USU in the high-teens, it would seem to imply – I'm assuming your instructional costs kind of stay in that 20% range, but it would seem to imply maybe more operating leverage on profitability than would be underlying the mid-20s. Is there just something else I'm missing either on your marketing investment that you're making or is it just that you'll see maybe even more leverage on G&A than the 900 basis points or so that you got in fiscal '20?

Michael Mathews

We're not really prepared to give fiscal year guidance on EBITDA. But I would say that as you can see we had a pretty significant improvement year-over-year of our EBITDA result of just over \$5 million improvement year-over-year. And at the end of the day, our EBITDA loss was relatively narrow. So there's no question we're going to turn EBITDA positive for the full year, but at this point we're not prepared to give exact

guidance in terms of how much EBITDA we'll produce, but we've definitely turned the corner. And as Frank mentioned, our recurring G&A is expected to continue to be at half the rate of revenue growth. So those things combined, again, will take us into a positive EBITDA for the full year. And we're hopeful to produce positive net income late this fiscal year.

Jeremy Hamblin

Okay, that's helpful. Let me then just ask a question about some of the partnerships you have. This new deal in Phoenix to lease some new space, what does that give you in terms of capacity potential for your program here in FY '21 in terms of just the number of students that you can potentially have enrolled just in those two campuses?

Michael Mathews

Well, today we have approximately 400 students in our final two-year core program across both campuses. And what I was implying in my earnings remarks earlier is that we have capacity currently to pretty comfortably double the size of our core program over the next couple of years. That would make for an incredibly large program obviously in a given metro if we end up with round about 800 core students. If you run the math on that, that implies north of \$15 million just in one metro. So I would say that at this point we're comfortable indicating that we're prepared to grow the core side of that metro to 800+. And then over time we'll give you guys updates as we make decisions on what the ultimate growth of that particular metro will be.

Jeremy Hamblin

Okay, great. Thanks for the color, guys. Good luck.

Michael Mathews

Thank you.

Operator

Our next question comes from the line of Austin Moldow from Canaccord. Your question please.

Austin Moldow

Hi. Thanks for taking my questions. I wanted to ask about the runway you have left on cost per enrollment continuing to go down on a like-for-like basis. Can you go through some of the factors that can continue to keep those rates low and maybe some potential factors that would push that up?

Michael Mathews

Yes, sure. Good afternoon, Austin. So at the end of the day the most critical factor for us is to number one have enough publishers that have enough inventory for us to purchase at relatively acceptable cost per click for us. So it's how many publishers do we have, what's their available inventory, what's the cost per click, and then of course ultimately

once they hit our landing page what becomes our weighted average cost per lead? So those are all the variables that go into cost of leads – and then of course the most critical piece once a lead hits our call center and hits our CRM, what’s our conversion rate on all of our leads? And historically it’s grown into that 12% range and it remains in that range. So what would make that cost of enrollment go up or down? One would be of course we’re moving into new metros this year -- moving into Austin and Tampa. And again, it’s to be determined what the cost per lead for that’s going to be. We’re going to use the same media approach that we’ve used historically, where we use both internet advertising in a metro as well as radio to augment. So yes, it would basically be ultimately our cost per lead and ultimately the number of different markets that we go into and whether that makes our weighted average overall go up or down based on how we do in our new markets.

Austin Moldow

That’s helpful. Thanks. Are you finding that because of the pandemic and advertisers in other industries pulling back that you’re actually experiencing more attractive CPCs or anything like that?

Michael Mathews

No, not really. We compete in a very kind of narrow niche, right. So primarily, we have two targets. We have students that are today registered nurses or of course in the pre-licensure side these are prospective students that are looking to complete a BSN in order to take the NCLEX to become an RN. So we really haven’t seen much of a change in our cost per lead throughout the COVID-19 pandemic, but we did see for about a six-week period a slowdown in enrollment simply because RNs were obviously terribly preoccupied especially during that first six-week period from mid-March to the end of April.

Austin Moldow

Got it. And my last question is on partnerships, but on the other side, on the inbound side. Can you give an update on where some of those hospital system partnerships are and how they are contributing to your enrollments?

Michael Mathews

Sorry, Austin, are you talking about our current locations in Phoenix or do you mean our new markets?

Austin Moldow

Current locations.

Michael Mathews

Yes, so we continue to work with all of our major players; HonorHealth, Banner Health, Maricopa Integrated Health System and then of course during the pandemic all of our

students have gone online, they're all virtual for their simulation and clinical activities. Does that answer the question?

Austin Moldow

I was kind of curious about what the volume is of those partnerships? Are the nurses that are part of those hospital systems after the pandemic coming to you more frequently through that channel rather than through the radio, to your landing page, et cetera?

Michael Mathews

No, I wouldn't say so. Again, we haven't seen a slowdown in prospective demand for our pre-licensure program. And we have sort of, if you look at it, we have basically three major lead channels. We have internet advertising, we have radio, and we have our partners. And we're pretty consistently driving enrollments in all three areas. And during the pandemic there hasn't been one channel that's been sort of stronger or weaker than the others.

Austin Moldow

Got it. Thanks very much for answering the questions.

Michael Mathews

Thanks, Austin.

Operator

Our next question comes from the line of Lee Cooperman from Omega Family. Your question please.

Lee Cooperman

Hi. You may not want to answer this question but I'm curious. On the 30% revenue increase that you're projecting for the current fiscal year, would you expect your margins to rise or fall and do you expect to generate free cash flow? And between the cash flow you generate and your current balance sheet cash, would you feel comfortable that you could basically avoid any additional financing?

Michael Mathews

Good afternoon, Mr. Cooperman. First things first, we expect our gross margins to remain in the kind of high-50s range as it was this year. As I indicated earlier, we have an internal target and we're very hopeful that we'll move to net income positive late this fiscal year which would also allow us to become free cash flow positive. So that's our target.

Lee Cooperman

The rest speaks for itself. Congratulations on doing a very fine job. Thank you.

Michael Mathews

Thank you, sir.

Operator

Our next question comes from Northland Capital. Your question please.

Unidentified Analyst

Thanks. This is Michael (representing) Mike Grondahl. Most of our questions have been answered, but maybe just quickly on the new partnership. Is there any capacity constraints for like the number of NPs per student or is it pretty much as many of you have coming through that program, it's good to go?

Michael Mathews

Yes. So we don't have any capacity constraints at this point. With our nurse practitioner program, we have an office of field experience that places these nurse practitioners into their clinicals and that department has gotten big. We've built it to over a dozen people now. And all they do for a living is ensure these great nursing students are placed just in time into their clinicals. And as a consequence of this tele-health partnership we announced this morning, it's going to make our lives quite a bit easier to ensure that those clinicals are available and we can continue growing without any clinical capacity constraints.

Unidentified Analyst

Thank you. That's helpful.

Operator

Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to management for any further remarks.

Michael Mathews

Thank you everyone for coming today. We appreciate your time and look forward to speaking with you next earnings call. Thank you very much. Have a good afternoon.

Operator

Thank you, ladies and gentlemen, for your participation on today's conference. This does conclude the program. You may now disconnect. Good day.