

Aspen Group, Inc. ([NASDAQ: ASPU](#))

Q3 2018 Results Earnings Conference Call

March 15, 2018 4:30 PM ET

## **Executives**

Janet Gill - Chief Financial Officer

Michael Mathews - Chairman of the Board, Chief Executive Officer

## **Analysts and Shareholders**

Eric Martinuzzi - Lake Street Capital

Eric Des Lauriers - Craig-Hallum Capital

Howard Halpern - Taglich Brothers

Jamie DeYoung - Goudy Park Capital

William Gibson - ROTH Capital Partners

## **Operator**

Good day ladies and gentlemen and thank you for your patience. You've join the Aspen Group 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 may be recorded.

I would now like to turn the call over to your host, Ms. Janet Gill. Ma'am, you may begin.

## **Janet Gill**

Thank you. Good afternoon. My name is Janet Gill, Aspen's Chief Financial Officer. Thank you for joining us today for Aspen Group's Fiscal Year 2018 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 regarding student enrollments and other metrics, Aspen University marketing spend, growth in revenue, EBITDA, 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 press release issued this afternoon and our filings with the Securities and Exchange Commission, particularly the section titled Risk Factors in our Form 10-K for the year ended April 30th, 2017 and the press release issued today. 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 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.

I will begin today by reviewing our operational and financial results for our fiscal 2018 third quarter, then will turn the call over to the Chairman & CEO of Aspen Group, Mr. Michael Mathews.

To open, quarterly revenues were \$5,701,958, a 53% increase from the comparable prior year period.

All of our comparative numbers, of course, include USU's contribution in the months of December and January.

As previously announced, Aspen University achieved 1,164 new student enrollments in fiscal Q3 and matched the previous quarter's record 13.6% conversion rate. Aspen University increased its Internet advertising spend rate by \$167,000 or 17% sequentially, primarily a result of a spending increase at the Doctoral level during the month of January.

Additionally, the company launched a nine-person outside salesforce in January, initially targeting the San Diego, Los Angeles, Phoenix, and New York metropolitan areas.

These two sales and marketing investment initiatives are designed to drive incremental enrollment growth in the upcoming 2019 fiscal year, consequently the company's gross margin and marketing efficiency ratios are expected to moderately decline short-term as a result.

Specifically, Aspen University's rolling six-month average cost per enrollment at the end of Q3 increased sequentially from \$787 to \$876 or 11%. Therefore, Aspen's marketing efficiency ratio (which is calculated by dividing revenue per enrollment over cost per enrollment) decreased from 8.9X to 8.0X, meaning that Aspen is currently projecting to earn an 8.0X return on its marketing investments.

Note that whenever the company increases its marketing spend rate in a given period, there's an approximate six-month lag effect before we generate a gross profit on that incremental spend.

Aspen Group's gross profit for the third quarter increased to \$2,900,633 or 51% margin, representing a 29% increase year-over-year.

Note that instructional costs increased to \$1,196,949 or 21% of revenues this quarter vs. 17% of revenues the previous quarter, in part as a result of USU's full-time faculty now being added to the company's payroll.

Excluding the \$610,000,219 one-time USU acquisition expenses, G&A increased sequentially by \$900,750. The acquisition of United States University accounted for over three-quarters of the \$900,750 G&A increase, as the company's non-faculty full-time staff rose from 110 to 142 employees.

The majority of the remaining increase was a one-time expense of legal fees related to the HEMG New Jersey bankruptcy proceeding in which the company is a creditor. Note that we are one of two major creditors working to take possession of just over 200,000 shares of Aspen Group stock.

On a year-over-year basis, G&A rose by a 119%, from \$2,133,074 to \$4,677,360.

In terms of our bottom-line, our net loss for the third quarter was (\$2,147,945) or diluted net loss per share of (\$0.15).

As previously mentioned, the one-time expenses related to the acquisition of USU totaled \$610,219, which represents an increase in the company's EPS loss by an additional (\$0.04).

EBITDA, a non-GAAP financial measure, was a loss of (\$1,588,565) or (28%) margin. Adjusted EBITDA, a non-GAAP financial measure, in the third quarter was a loss of (\$597,305) or (10%) margin.

At the end of the third quarter, the number of Aspen University students utilizing a monthly payment method increased to 4,194, which represented growth of 62% year-over-year. Already another 204 students at USU are utilizing a monthly payment method, meaning the company had 4,398 students at both Universities on a monthly payment method.

In closing, Aspen University alone is now receiving over a \$1 million cash per month from the MPP and over \$1.7 million in total cash each month from students. A reminder, this is just for Aspen University.

Now, I'll turn the call over to Michael Mathews to provide additional color on our third quarter results and to provide an operational update and guidance for the next quarter.

## **Michael Mathews**

Thanks Janet. Good afternoon everyone. Fiscal Q3, of course, was our initial quarter following the acquisition of United States University, so they were in our numbers for two of the three months of the quarter.

Let me just start by saying that business is quite strong. We achieved 1,267 new student enrollments for the quarter, of which 1,164 at Aspen and another 103 at USU over those two months.

Of those 103 enrollments for USU, the vast majority were from nurse practitioner students. As we previously predicted, this is clearly our highest demand degree program at USU. Today there are 234,000 licensed nurse practitioners in the United States and an additional 23,000 new nurse practitioners graduate each year.

In the next two to three years, should we reach our target of about 2,000 nurse practitioner students across the country; that would give us approximately 3% market share of new enrollments per annum.

Our total number of enrollment advisors actually slightly declined at the end of the quarter because we launched an outside salesforce of nine people in January, most of which were existing Aspen enrollment advisors. As Janet mentioned, the salesforce will initially be targeting San Diego, Los Angeles, Phoenix, and the New York metropolitan areas.

We've been very successful in the current quarter in terms of hiring additional enrollment advisors, as we expect to have approximately 70 enrollment advisors employed at the company by early April, a few weeks from now, which will be approximately one month ahead of our original fiscal year-end target date.

As a result of our enrollment center being staffed to our target size by early April, we intend to increase our Internet marketing monthly spend rate to over \$600,000 beginning with the month of April, again one month ahead of schedule.

Enrollments and our revenue ramp are tracking just as expected, as we announced earlier today that we're now forecasting revenues to rise sequentially this quarter by at least \$1 million to over \$6.7 million.

Our approximately \$2 million operating loss this quarter was, of course, subject to approximately \$700,000 of one-time non-recurring expenses, the majority of which was related to the USU acquisition. Another \$600,000 approximately were non-cash charges, so the operating loss using our Adjusted EBITDA formula was a loss of only \$650,000.

USU's Adjusted EBITDA loss in the quarter was a little over \$700,000, meaning that Aspen's historical business, not including USU, operated on a positive Adjusted EBITDA basis even given the incremental marketing investment of \$167,000 that we made in January.

As previously indicated, we plan to increase our monthly Internet advertising spend -- including both schools -- starting in April from our historical spend rate of approximately \$400,000 per month for both schools to over \$600,000 per month for both schools.

This significant 50% jump obviously will suppress, short-term, our operating results. Consequently, we're forecasting to remain in Adjusted EBITDA negative territory for the next two quarters, then turn positive in the second half of our fiscal year 2019.

Given a projected 50% marketing spend rate increase, should we quickly return to Adjusted EBITDA positive territory three quarters following the increase, would of course be a testament to our marketing efficiency and powerful unit economic model.

One other update item before I turn the call over to Q&A. Since we made the announcement of our pre-licensure BSN campus in Phoenix approximately two weeks ago, we've already received 24 prospective student inquiries without any paid advertising efforts.

We're extremely excited about the prospects for this new business, and by the way, our target date for our first cohort of students is July, so we'll see initial revenues for this campus begin to hit toward the end of our first quarter of fiscal 2019.

After we announced our BSN pre-licensure program a few weeks ago, and at that time indicated it would require approximately \$1 million CapEx investment, I received a number of inquiries as to whether the company will need to raise additional equity this calendar year.

Let me reiterate today that we have no plans to raise additional equity this calendar year and should we decided to increase our cash position later this year, we would first look to increase our existing \$10 million credit facility before we would consider equity.

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

## **Question-and-Answer Session**

### **Operator**

Our first question comes from the line of Eric Martinuzzi of Lake Street. Your line is open.

## **Eric Martinuzzi**

Thanks and congratulations on the USU traction there, that's really compelling, the family nurse practitioner growth. I had a question for you on the Internet spend. I get confused when you guys talk about Internet monthly spend and I think it's partly because there's the old Aspen University, and then there's Aspen University plus Doctoral, and then there's Aspen University plus Doctoral plus USU plus pre-licensure. You said the old spend was \$400,000 per month, the new spend at \$600,000 per month. Does that \$600,000 per month include all four growth vectors?

## **Michael Mathews**

No, it doesn't. Good question Eric. So, I'll walk you through the historical numbers. So, the previous \$400,000 per month was split approximately \$325,000 a month on behalf of Aspen University and all of their degree programs, primarily nursing. And then, of course, the other \$75,000 was for USU the last couple of months.

So, going forward, as we move into this \$600,000 per month, because we've announced previously that we're going to start to spend significantly more dollars on the Doctoral level than we have historically, I would guesstimate that we're going to spend in the vicinity of \$500,000/month on behalf of Aspen University and the other, say, \$100,000 approximately for USU. That does not include advertising for the pre-licensure campus business.

We are getting such good feedback in the Phoenix metro about our pre-licensure campus program; there is a chance that we might be able to bring our first one, two, or three cohorts into place without having to spend any marketing dollars. That's how compelling our program is.

## **Eric Martinuzzi**

No, that's terrific. You talked about some of the investments in people as well, your nine-person outside salesforce as well as the incremental adds on the enrollment advisor side. Is part of the reason for the cost per enrollment rising due to the fact that you're taking some of your best enrollment advisors and turning them into an outside salesforce?

## **Michael Mathews**

No, I wouldn't say that. For those of you that have had the benefit of walking through our spectacular enrollment center in Scottsdale, you would know that we're just streaming with talent. And sure, we picked out seven great people and hired two people from outside the company, but at the end of the day, our enrollment costs have to rise short-term when you build an outside salesforce, because it's going to take them a handful of months to obtain traction. So, it's just a simple issue of lag effect.

## **Eric Martinuzzi**

Okay. And then going after Doctoral candidates, I would imagine there's a higher customer acquisition spend to get a Doctoral candidate, does that also impact these enrollment costs?

**Michael Mathews**

Yes it will, great question Eric. You're 100% correct. We're finding that Doctoral leads tend to cost somewhere in the vicinity of 50% higher than historical. It's too early to tell what the conversion rate is going to be, but I would venture to guess it's going to be similar. I think we'll clearly be over 10%. But again when you run the unit economics on that program, you're talking about \$27,000 tuition rate versus our traditional nursing programs, which are \$10,000 or \$12,000.

So, our LTV is going to rise into the teens as opposed to today at seven thousand, right?

**Eric Martinuzzi**

Yes.

**Michael Mathews**

So, our gross profit on Doctoral students in conclusion is going to be higher.

**Eric Martinuzzi**

Yes, and I do appreciate whether it's 8.9 or 8.0, that ROI on your customer acquisition spend is still very compelling. Last question for me, when should we see the -- because I know you do a six-month trailing on that cost per enrollment -- when do you expect that six-month trailing to kind of come back in line with historical norms? Is that a Q3 of 2019? Is that a Q4 of 2019?

**Michael Mathews**

It's so hard to say. So, I run this business very much from -- for a lack of a better way of saying it -- a data analytics business. So, I'm constantly going to be making decisions week-after-week, month-after-month, based on whatever business is achieving a higher gross profit. That's really what matters. And so if my enrollment cost goes up, but my LTV is growing at a more rapid rate, then obviously that six-month trailing average will rise over time from 8.0 perhaps to nine or 10.

**Eric Martinuzzi**

Okay. Congrats on the quarter and thanks for taking my questions.

**Michael Mathews**

Thank you.

**Operator**

Thank you. Our next question comes from the line of Mike Malouf of Craig-Hallum Capital. Your line is open.

**Eric Des Lauriers**

Hi guys, this is Eric on for Mike. Congrats on a great quarter and congrats on your early traction with the hybrid program.

Yes, afternoon Eric.

**Eric Des Lauriers**

Thanks. Good afternoon. I was wondering if we could dive into some of the early results on the marketing spend on the Doctoral program, just wondering what kind of traction you received there.

**Michael Mathews**

Well, remember when you invest in any program and this program in particular, we tested very, very carefully in Q4 and then we launched significantly in January. It takes 90 to 120 days for that monthly investment to really have a good idea of exactly what the cost enrollment is going to be. So, I would suggest that if we spend somewhere between \$70,000 and \$100,000 in a month, I would expect that we're going to be averaging worst case 40 enrollments per month at the Doctoral level.

**Eric Des Lauriers**

That's great. Going over to the outsourced marketing, can you kind of discuss what your expected impact on market efficiency is? And then how that number can come back to historical levels? I know you were mentioning the lag earlier, but I guess I'm just wondering what kind of increased spend is associated with outsourcing versus in-house? And then just a follow-up question, how you see that sort of ratio between in-house to outsource?

**Michael Mathews**

I apologize. Eric when you say, outsourced, are you talking about the new outside salesforce?

**Eric Des Lauriers**

Yes.

**Michael Mathews**

Okay. Because that's really not--

**Eric Des Lauriers**

Outsourced is a little incorrect because it is a lot of Aspen -- former Aspen employees.

**Michael Mathews**



And so this clearly is a different business than the marketing approach we've had for six years where everything is internet advertising using sophisticated data targeting techniques. So, what this is going to be is this is going to augment those efforts and the process that takes place is these outside salespeople build relationships in each of the various sectors that they're going to target. So, I think I mentioned earlier that we're going to, the outside salespeople are targeting four different segments; nursing, education, military, and community colleges. And so their first job is to build relationships with leadership -- people in leadership positions in each of these various locations. And then the second step is they then go in and set up tables and make presentations and things of that nature. And so it's a several month process before they're going to be able to drive significant leads into our enrollment center.

So, I don't know if I answered your question, but our expectations are that our salespeople, each one of them, will be able to drive a minimum of 10 enrollments per month within say four to six months.

**Eric Des Lauriers**

Okay. That's definitely helpful. I suppose if I could just dig into that a little bit more. What -- it seems like that's a bit more of a costly initiative than simply online advertising. So, I'm just wondering how we can expect marketing efficiency ratios to sort of rebound? And then looking out the next year or two and beyond, how you expect that mix of the outsourced or the outside marketing team versus in-house, how do you expect that ratio to sort of evolve over time?

**Michael Mathews**

The first thing I would want to say to you guys is that when we created the marketing efficiency ratio, it was only using Aspen University and it was only using primarily our nursing business with internet advertising. And so we watched what the number of courses that were being taken by an average student and we know scientifically when we get an enrollment, there is an average eight course completions per enrollment.

And so I'm not going to call the numbers and suggest what it is yet. We've got to watch this for a year. When these new students come in, we have to watch to see how many courses are taken in year one and how that differs versus our historical levels. And at that point in time, I will begin to update that ratio. Before that, it's -- it wouldn't be statistically accurate enough for me.

**Eric Des Lauriers**

Fair enough. All right. Well, thank you and congrats again on a great quarter.

**Michael Mathews**

Thank you.

**Operator**

Thank you. Our next question comes from the line of Howard Halpern of Taglich Brothers. Your line is open.

**Howard Halpern**

Congratulations on the quarter.

**Michael Mathews**

Good afternoon Howard.

**Howard Halpern**

I was wondering also that group of nine, are they going to be using, at least in a nursing segment, the relationships that you have developed with the hospitals and the HR departments within those relationships that have been feeding some nursing candidates to you?

**Michael Mathews**

Absolutely. Imagine if you're a really intelligent company, which I think we are, the first thing you would do is you would pull up your CRM system and you would look at those relationships. If you're the person who's running the New York metro area, you're going to look to see where all the great Aspen students are across this great New York metro. And the first thing you're going to do is you're going to start calling those students and saying; hey who do you know? And it becomes -- that's what outside sales is about, it's about building relationships and networking. And so that's the process they're going through.

**Howard Halpern**

Okay. And in terms of the second half of the year -- of next year turning EBITDA positive, does that include some of the incremental spend you're going to have to do on the pre-licensure program?

**Michael Mathews**

Yes.

**Howard Halpern**

Okay.

**Michael Mathews**

We're commencing with the pre-licensure campus in July. And so even given that, we will turn positive in the second half of this fiscal year coming up. And it is a very quick turnaround. We couldn't be more bullish on our business model and the unit economics of our model. And I know everyone after they heard me say that I was going to drive our marketing cost up by 50% starting with this fiscal year, they all gave me kind of a

nod of go get them. It's the right thing to do because we have a very unique business model and we just need to go take market share.

**Howard Halpern**

Okay. Well, keep up the good work guys.

**Operator**

[Operator Instructions]

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

**Jamie DeYoung**

Thank you. Good Afternoon Mike.

**Michael Mathews**

Good afternoon Jamie.

**Jamie DeYoung**

I got on a little bit late, but I just wanted to first ask a question with respect to ROI and marketing spend, isn't the ROI for the FNP and DNP programs by far the most profitable?

**Michael Mathews**

It appears that they will be the most profitable programs in the University. But I mentioned a few minutes ago that we need to watch these enrollments come in and the actual behavior of the students to determine how many courses they're taking and what the attrition is in order to provide a very statistically accurate revenue per student number compared to the other programs. It's going to take us some time.

**Jamie DeYoung**

Okay, great. That's helpful. And then second question I had was given you reached breakeven profitability at \$14 million in revenue and could throttle back your marketing at any time to lower your cash burn, how are you thinking about balancing the desire to grow faster to capture more market share with the future need to raise more cash to support your growth?

**Michael Mathews**

Great question. Well, as we've stated previously, we plan to accelerate our growth and marketing spend meaningfully in this upcoming fiscal 2019, which of course, we're going to begin next month -- April.

Our current cash position and our access to our credit facility will allow us to accelerate our growth and our marketing spend through fiscal 2019 without needing to raise additional equity.

In addition, we still expect to get to breakeven profitability sometime in the second half of this upcoming fiscal year even with the elevated marketing spend. Many potential investors have expressed interest in our company and would like us to raise additional equity, so they can become shareholders of our company. And I'm very grateful for the interest, I have to say. However, any sort of equity raise is just not going to happen anytime this calendar. So, it's basically off the table.

**Jamie DeYoung**

Okay. And I think you mentioned earlier getting to breakeven in the back half the year, so it sounds like you've got sufficient capital to get you there. Great. And then just my last question has to do with -- you mentioned recently moving into the pre-licensure market and if I understood correctly on that last call you said you're starting with Phoenix and that over time I think you mentioned that facility could accommodate as many as 900 students once you get to full capacity. And I think you said that program was around \$48,000, \$49,000 per student. So, is it possible that those programs could be doing into the mid-teens in revenue at full capacity at peak several years down the road?

**Michael Mathews**

Yes. It will take us four to five years to have -- to be in a full maturation status. But yes, it will be appreciably north of \$10 million per annum, yes.

**Jamie DeYoung**

Great. Thanks so much--

**Michael Mathews**

Per campus.

**Jamie DeYoung**

Understood. Thanks so much for taking my questions.

**Michael Mathews**

Thank you Jamie and good day.

**Operator**

Thank you. [Operator Instructions]

Our next question comes from the line of William Gibson of ROTH Capital Partners. Your line is open.

**William Gibson**

Thank you. Can you hear me this time?

**Michael Mathews**

Yes, sorry about that. I don't know what happened.

**William Gibson**

How does the increase in enrollment advisors and the Internet spend flow through the income statement? Is that all going to SG&A or is part of cost of sales?

**Michael Mathews**

So, the enrollment center has always been within the G&A line item. And to-date, marketing has essentially been our Internet advertising spend, but now we've changed that label to sales and marketing because we have those nine outside salespeople.

**William Gibson**

And just lastly you mentioned potentially giving some stock back on the bankruptcy proceeding. What was behind that? Or how did they get stock?

**Michael Mathews**

So, HEMG was the original owner of Aspen University and that company has declared bankruptcy in New Jersey and we are one of two major creditors that are looking to, in the bankruptcy court, obtain those shares back. It's a significant amount, I think its 208,000 shares.

**William Gibson**

Okay. Thank you.

**Michael Mathews**

You're welcome.

**Operator**

Thank you. At this time, I'd like to turn the call back over to management for any closing remarks.

**Michael Mathews**

Thanks everybody for your questions. I want to thank you for joining me this afternoon. Our team here looks forward to talking with you again soon. Have a nice afternoon.

**Operator**

Ladies and gentlemen that does conclude today's conference. Thank you for your participation and have a wonderful day.