

**Aspen Group Inc.**

**United States University Definitive Agreement Conference Call**

**May 22, 2017**

**Janet Gill, Chief Financial Officer**

Good afternoon. My name is Janet Gill, Aspen's Chief Financial Officer and thank you for joining us today for Aspen Group's conference call to discuss the definitive agreement to acquire United States University, as well as the press release we just put on the wire outlining key growth milestones recently achieved at Aspen University.

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 completion of the acquisition, acquiring a line of credit, regulatory approval and plans for United States University following closing. 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 filings with the Securities and Exchange Commission, particularly the section titled Risk Factors in our Form 10-K filed on July 27, 2016. Additionally, to consummate the definitive agreement we announced last Thursday, we need to implement a line of credit or arrange other financing. Such risks include our ability to do so on acceptable terms, conditions which may be imposed by the various regulators, and on a post-close basis our ability to integrate United States University.

Aspen Group disclaims any obligation to update any forward-looking statement as a result of future developments. There will be a transcript of this conference call available for one year on the Company's website.

I will now turn the call over to the Chairman & CEO of Aspen Group, Mr. Michael Mathews.

**Michael Mathews, Chief Executive Officer**

Thanks Janet. Good afternoon everyone. The purpose of today's call is to review the terms of the definitive agreement to acquire United States University, to provide an overview of the university, discuss our long-term strategy for the university, and finally to outline the regulatory process, the timing of the transaction and our plans for financing the transaction. Let's begin by reviewing the terms of the transaction.

On May 13th, Aspen Group, Inc. agreed to acquire the operating assets of United States University for \$9 million, payable with \$4.5 million in Aspen Group common stock based on the \$3.74 per share price as of the signing of the letter of intent back in March.

Additionally, \$2.5 million is to be paid in cash (\$900,000 of which we've already lent to an entity controlled by the owner at 8% interest), and finally \$2 million will be paid in the form of a convertible note bearing 8% annual interest that matures two years after the closing. At the option of the note holder, on each of the first and second anniversary dates of the closing date, \$1 million of principal and accrued interest under the note will be convertible into Aspen Group common stock at the then-current market prices (subject to a floor of \$2 per share).

In addition to acquiring the operating assets of United States University, Aspen Group will assume certain liabilities, principally operating liabilities of the university.

Aspen Group also agreed upon the closing of the transaction to appoint an individual designated by the owner to the company's board of directors, and we'll nominate such individual for election at the company's next annual meeting of shareholders.

OK, let's talk about United States University. First, as I'm sure most of you know, the mission of Aspen Group, Inc. is to make college affordable again in America...and what university name is better to take to the country than United States University?

Needless to say, we love the brand.

Moreover, our mission blends beautifully with United States University's mission which is about providing professional and personal educational opportunities, with a special outreach to underserved groups.

Second, United States University has a similar set of nursing degree programs as Aspen University. Their programs are all accredited by the CCNE, same as Aspen University, and they offer both an RN to BSN and an MSN program similar to Aspen University. But United States University has something that Aspen University does not, a hybrid online/on-campus family nurse practitioner (or FNP) master-level program approved by the board of nursing in the state of California.

This is a clinical program requiring 36 lab hours and 612 clinical hours, so students that are from out of state are required to come to campus three times during the two-year program, with the remainder of the curriculum all accomplished online through synchronous lectures, discussions, social networking, recorded videos, readings and research, face-to-face instruction via web conference, and of course in person for the clinical hours.

In fact, we believe the FNP program will be the largest program at United States University in the coming years. Our plan will be to allow these RN's to pay for the program with a monthly payment plan at \$375 per month for 72 months which will make this among the most affordable FNP programs in the United States.

United States University's second college is its school of education. In addition to a master-level education program, similar to Aspen's offering, United States University offers undergraduate teacher credentialing preparation programs for students looking to begin a career as a K - 6 or 7 - 12 grade teacher. The college of education's teacher credentialing programs are approved by the California Commission on Teacher Credentialing (CCTC) in multiple subject, single subject and bilingual authorization.

United States University's third college is their college of business and management. Their bachelor of arts in management offers 7 specializations, and they have a strong MBA program that today accounts for nearly 50% of their student body.

Finally, United States University's fourth college is the college of health sciences. Their bachelor program offers four specializations, and they offer a master-level program with specializations in healthcare administration and health education.

With that as the overview of the university, I'd like to say a few words on our long-term strategy for United States University.

First, after we complete the acquisition, we intend to reduce United States University's tuition rates to levels similar to Aspen University, and for every degree program we will offer a monthly payment plan to students at no interest to allow them to forego signing a federal financial aid loan if they so choose.

Today about 2/3rds of Aspen University students use a monthly payment method, so we have every reason to believe we'll have the same success rate with this university as we've had with Aspen.

The long-term goal we have for United States University is for this school to be the 'national' brand of Aspen Group, Inc.

We're not looking to materially grow the San Diego campus-based student body, rather we expect in the future that the vast majority of United States University students will be studying fully-online or participate in a hybrid online/clinical campus program such as the previously described FNP program.

We see Aspen University as evolving to be primarily a nursing school, and we have some exciting expansion plans for Aspen in the nursing sector, beyond our RN to BSN and MSN programs, that we plan to announce later this calendar year.

For United States University, we plan long-term to offer all major occupational degree categories to Americans looking to earn a graduate degree, and to college-worthy Americans that hold college credits and didn't complete their degree. We aspire to give these adults back the dream of earning a college degree by offering them an affordable monthly payment plan.

Sadly, there's 36 million of these adults that completed college credits and never finished, and our belief is the primary reason they don't finish is because they are afraid of incurring overwhelming debt and not earning their degree.

It's our plan to take that psychological financial barrier away and allow these adults to pay month-to-month until they finish, and we'll allow them to withdraw at any time and they will only owe us for the credits they've earned and/or fees incurred.

The market size for this is breathtakingly large. Assuming \$10,000 tuition on average for a total of 36 million adults and you have a market opportunity of \$360 billion dollars.

This is the mission, and the opportunity, we had in mind when we agreed to acquire United States University from their current ownership.

To give you an idea of how well the monthly payment plan is working at Aspen University and how well we expect it to translate to United States University, at the end of our fiscal year ending April 30, 2017, we had over 3,000 active students on the plan, which equaled 65% of the active student body at Aspen. As a result, this past quarter, our estimated federal financial aid revenues fell to 18%.

To give you a few more stats on how successful the monthly payment plan is working at Aspen, we added on a net basis ~160 monthly payment students per month this past quarter, surpassing last quarter's pace of ~120 net per month. The total contractual value of monthly payment plan students now exceeds \$26.5 million which currently delivers monthly recurring tuition cash payments of approximately \$780,000.

This acquisition of United States University is subject to customary closing conditions and regulatory approvals, most critically being the WASC Senior College and University Commission, as they are the regional accreditor for United States University.

We understand that the next WASCUC commission meeting is in the fourth quarter, so should we receive approval relative to our change of ownership request, it will not happen earlier than the fourth quarter of this calendar year. We will also need approvals from the U.S. Department of Education, the state of California and a number of programmatic accrediting bodies.

One final comment on our plans for United States University. It is our intent at Aspen Group, Inc. to run the two universities independently, with United States University governed by its own board of trustees. Therefore, we have no intent in the future to merge these two universities.

In terms of our plans to fund this transaction, following our recent \$7.5 million equity raise which allowed us to pay off all our long-term debt, we now have approximately \$3 million of cash on the balance sheet. We estimate we'll need approximately \$5 million in available cash at the time of closing which if approved is estimated to be 6 months away.

Please be advised that we are very far along in the process of obtaining a line of credit of at least \$5 million, perhaps as much as \$10 million. We've received multiple term sheets already and we're taking our time negotiating the best deal for the company.

To be clear, we do not plan to sell equity to fund the acquisition or to fund the operations of United States University or Aspen University. We of course will disclose the terms of the credit facility once we execute an agreement.

Those are my formal remarks for today, I'd like to open the call for any questions.

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

### **Operator**

The first question comes from Eric Martinuzzi of Lake Street Capital. Your line is now open.

### **Eric Martinuzzi**

Congratulations on getting the purchase agreement signed, I know there's a lot to do between here and closing. I've got a couple questions from the combined entity from a financial perspective and then a couple of questions about the programs that you're acquiring here, the different specialties. Starting on the financial side, Mike, you said on your Q3 earnings call that you thought the acquired entity could be about the same size as the Aspen legacy but then on the call today you talked about reducing tuition rates. I think about where Aspen is today \$13-\$14 million top line and trying to juxtapose that back in March as well as your comments today, can you give me some clarity on the first full year of ownership and what we should expect on the top line?

### **Michael Mathews**

Good afternoon Eric, thanks for the question. First of all Eric, when I made my comments back in the 3rd quarter, I absolutely anticipated the strategy of reducing USU tuition rates. By the way United States University, we call it USU. We always had planned to drop tuition rates down to the Aspen level to offer MPP across each degree level. So my comments stand from Q3. As I said before, the regional accreditor will make the decision on the change of ownership in their next commission meeting which is in Q4 this calendar year. Assuming the acquisition closes right around the end of the calendar year, they would only be in our numbers at the most 4 months. So back to our 3rd quarter conference call, I have indicated that I expect USU to be at an Aspen revenue level for fiscal year '19, not this fiscal year that just started but of course the following fiscal year. So I would expect USU to be about similar size that Aspen was in the fiscal year that just ended April 30 which is about \$14 million.

### **Eric Martinuzzi**

Thanks for that clarification. As far as the margin profile here, obviously Aspen is 100% online, you didn't have a physical campus. Can you help us understand the gross and operating margin profile, and EBITDA profiles of USU?

## **Michael Mathews**

That's a great question, in the remarks I was very specific about our strategic plan for USU being very similar to the plan of Aspen. We believe that the vast majority, and I'm talking about literally 95% of revenues in the future at USU, will be online. Again I'm including our FNP program as part of that even though there's 3 clinical components to that program and the students have to actually fly into SD 3 times to conduct those clinicals. So we expect with USU the vast majority of revenue to be either 100% online or hybrid programs where the majority of the credits are online and just a small segment will be clinical.

## **Eric Martinuzzi**

95% of future revenues online at USU, OK.

## **Michael Mathews**

And the implication of that is the financial model of USU should mirror Aspen's financial model.

## **Eric Martinuzzi**

And then shifting over to the actual program offerings that you'll gain through the acquisition. I don't pretend to be an expert on nursing degree programs so you guys are very excited about this master in science in nursing - family nurse practitioner, is that something that your current Aspen students feel like they could be a natural fit here? Have you heard them say they wish you had this? Is this part of the thinking for the acquisition?

## **Michael Mathews**

USU offers an RN to BSN and a MSN, the same programs that Aspen offers. The difference is that USU being regionally accredited, they have the ability to offer a clinical program through the state of California. This is a very unique program that Aspen cannot offer which USU does offer. There's tremendous potential for this program because there are not many high-level FNP programs that are primarily online that will have the price point that we intend to offer to the marketplace, so yes that program has tremendous potential.

## **Eric Martinuzzi**

Housekeeping item here. I know the equity raise was around the March/April timeframe. Janet do we have, I guess you haven't reported Q4 yet, do we have kind of a pro forma

share count? I know you said that the debt had been cleaned up and we're looking at 3 million in cash on the balance sheet. What is the share count today?

**Janet Gill**

15.5 million.

**Michael Mathews**

Prior to the equity raise in April, we had 13.5 million shares that were outstanding and in the equity raise we raised exactly 2 million shares, so now we're at 15.5 million.

**Eric Martinuzzi**

Ok thanks again for taking my questions and congratulations on the purchase agreement.

**Operator**

Thank you. And our next question is from Howard Halpern of Taglich Brothers. Your line is now open.

**Howard Halpern**

My question is regarding customer acquisition costs. This being, you know, the primary driver. How is this going to translate beyond the nursing programs into their other programs going forward and will you run 2 separate units for that?

**Michael Mathews**

Good question Howard. We of course have not launched publicly at Aspen a monthly payment plan to other degree categories outside of nursing. We did, if you guys remember years ago when we first began marketing Aspen University back in 2012, we advertised quite a bit with our MBA program and we were very successful. With the MBA program in the early years we had a cost of acquisition of about \$1,000 and our conversion rate if I recall was around 7% at that time. Since we launched the monthly payment plan in early 2014, approximately 3 years ago, as you know we made the decision to focus all of our marketing dollars in the nursing sector. And as you know, our conversion rate has risen to over 10%. I don't expect our other programs, for example if we launch an education program on behalf of USU, or if we launch programs in the FNP category for USU, I don't expect a conversion rate to continue to be 10%. I do expect it to be better than 7%. So I would still expect our cost of enrollment to remain in the \$1,000 or less level.

**Howard Halpern**

Do you still have capacity in your current office in Phoenix or are you currently going to continue hiring people in that unit?

**Michael Mathews**

I'm pretty confident that we will have excellent capacity to grow an enrollment center on behalf of USU. We've very successfully in the last 2 years grown Aspen from approx. 10 people in our enrollment center to about 45 people today. And in the most recent quarter, we've increased our call center by about 15 people so we added about 4 or 5 people per month. So I'm very confident in our ability to grow USU enrollment center into the 50 person range in the next couple of years. There's a tremendous talent pool in the Phoenix Metro.

**Howard Halpern**

One last one. In terms of technology for doing the online program, are you going to unify the technology or bring in new technology or does USU have good technology now that you might use at Aspen or visa versa?

**Michael Mathews**

Yeah that's a great question. So Aspen Group Inc, the public company, which is of course based in NYC, our plan will be to offer corporate support services to both universities. First of course will be corporate finance. We will also provide HR support. And very importantly we're going to offer technology support based out of our Canadian development center, as well as marketing support. So those centralized services will provide support to both universities. And of course the entirety of the academic nature of those universities remain completely separate with their own board of trustees, etc. So there are some centralized services that we will provide and the remainder of each of those universities will operate independently.

**Howard Halpern**

Congratulations again and I look forward to further updates.

**Operator**

Our next question is from Brett Reis of Jannie Montgomery.

**Brett Reis**

Hi Mike, congrats as well.



## **Michael Mathews**

Good afternoon Brett.

## **Brett Reis**

Mike, this Linden Education Group you bought USU from, they have a portfolio of other colleges. Did you look through them? Why did you decide to buy this one?

## **Michael Mathews**

Linden Education group is a very successful company that owns a couple of universities in Europe and also own University of the Potomac in VA and Washington DC. Every one of the properties that Linden Education owns is outstanding. And it was my point of view that this is their most outstanding asset and that's why we went down the path to acquire this.

## **Brett Reis**

When you go on the USU website, they have an online book store and they have an online library. As you grow the number of students, any challenges to maintain that infrastructure for an expanding student base?

## **Michael Mathews**

No, one of the things I should have mentioned earlier when you asked the earlier question about infrastructure is we have built the entire back end system, student information system, marketing platform, etc. at Aspen Group, Inc. and of course that's what's utilized today by Aspen University. On a post-acquisition basis, we intend to implement the entirety of our backend infrastructure on behalf of USU which will give them a tremendous leg up, not just for student acquisition but very importantly our ability to service our student body in a world-class kind of level. There's a tremendous amount of advantages that USU will receive by utilizing all our backend infrastructure which we've built over 5 years at Aspen.

## **Brett Reis**

Now the online book store, is that a potential profit center for us?

**Michael Mathews**

It's a relatively small, immaterial aspect of the revenues of most universities, including ours.

**Brett Reis**

The teachers at USU which teach on a face-to-face basis in a physical classroom are going to be doing more and more online classes; are these teachers going to be comfortable with that new business model going forward? Are there any issues there?

**Michael Mathews**

Over 1/3 of college courses taken today are taken online. And that's across every college and university in America. So I would be shocked if there's any university in this country that only offered a campus-based classroom modality and nothing online. Every major university offers what is called hybrid programs which means a number of the courses are fully online and of course as an example, the FNP program at USU, there's some clinical or campus-based component. Does that make sense?

**Brett Reis**

Yes.

**Michael Mathews**

The faculty members are tremendously experienced at both modalities.

**Brett Reis**

Right. Great! Thanks for taking my questions and KBO! Keep Buggering On!

**Michael Mathews**

Thanks Brett.

**Operator**

Our next question is from Robert Karlson with Jannie Montgomery. The line is now open.

**Robert Karlson**

How many students do the combined colleges have presently? And what's our capacity? How big a number can that grow to?

**Michael Mathews**

OK, so we announced about 30 minutes ago that we at Aspen University ended the fiscal year April 30, 2017 with 4,681 active students, so we're getting very, very close to the 5,000 mark. USU today has hundreds of students, not thousands, to give you an idea of the difference in size. In terms of capacity, we aspire someday to have tens of thousands of students. Most of the major universities that are online publicly traded universities, are in the 30,000+ range in terms of their total size and we aspire to get to at least 30,000. And quite frankly, if the monthly payment plan goes as we expect, someday we could have over 100,000.

**Robert Karlson**

Thank you.

**Operator**

There are no further questions. I would like to turn the call over to management for further remarks.

**Michael Mathews**

No further remarks. Thank you for your questions today. Thanks to everyone for joining us this afternoon and we're looking forward to talking with you again soon when we get ready to announce our end of the fiscal year financial results. Good afternoon, everyone.