Aspen Group Inc.

Fiscal Q4 2016 Earnings Conference Call

July 27, 2016

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 Fiscal Year 2016 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 expectations from increase in marketing spend, student metrics, and forecasts including growth in revenue, gross margins, Adjusted EBITDA and Net Income.

Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance.

A discussion of risks and uncertainties related to our business is contained in our filings with the Securities and Exchange Commission, particularly the section titled Risk Factors in our Form 10-K filed on July 27, 2016.

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 financial results for our fiscal 2016 fourth quarter, then will turn the call over to the Chairman & CEO of Aspen Group, Mr. Michael Mathews, to provide a business update and offer fiscal year 2017 guidance. To open, quarterly revenues were $2,670,616, a 72% increase from the comparable prior year period, which is an acceleration from 68% year-over-year growth in the previous quarter.

Aspen Group's Gross Profit for the 4th quarter increased 104% from the comparable prior year period to $1,578,785 or 59% margin. This 59% gross margin result represents a 1,100 basis point sequential improvement.

Adjusted EBITDA increased 213% from the comparable prior year period to $304,073 or 11% margin, handily beating prior guidance of over 5% margin. The company also delivered a positive EBITDA result of $64,268 or 2% margin.

Finally, our Net Loss applicable to shareholders was ($108,616) or Loss Per Share of One Cent ($0.01). That's a sequential improvement of 84% and an improvement of 89% from the comparable prior year period.

This of course is the first quarter in which the company has delivered positive EBITDA results and positive Adjusted EBITDA results. In a few minutes, our Chairman & CEO, Michael Mathews, will provide full-year guidance for fiscal year 2017.

From a balance sheet perspective, Aspen ended the quarter with a cash balance of approximately $800,000.

Please note that approximately $900,000 was expended in late-April, paying down upcoming May liabilities just prior to the end of our fiscal year, to improve the company's current ratio. These actions were necessary to put Aspen University in a position to pass the Department of Education's composite score for the second year in a row.

Finally, our Total Stockholders' Equity ended at a positive $1,812,982.

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

Michael Mathews, Chief Executive Officer

Thanks Janet. Good afternoon everyone, this is a key milestone in the company's history given the sequential bottom line improvement we've just announced. No doubt it's highly unusual for a company on a sequential basis to improve its Adjusted EBITDA margin from minus 8% to plus 11%, a 1,900 basis point improvement.

Moreover, the 4th quarter represents our first quarter of positive EBITDA of $64,268 or 2% margin. On a GAAP basis, in the fourth quarter we reported a narrow Net Loss of ($108,616) or minus 4% Net Loss Margin.

Today i'd like to focus on how this was possible, both strategically and tactically, so shareholders can understand deeply how unique and leveragable our business model is.

I'd like to begin by saying that we believe we have built the most sophisticated and efficient higher education technology business model in history.

Aspen University is run by experts from the internet advertising sector. We vertically integrated the student acquisition marketing function, meaning all prospective student leads are generated in house, consequently these leads are all branded and exclusive to Aspen.

Over the last 6 months of the fiscal year, Aspen generated 11,926 leads and delivered 1,122 new student enrollments, meaning our lead to enrollment conversion rate was a spectacular 9.4%. Given the marketing spend rate for the last 6 months of the fiscal year was $931,392, that means our average cost of enrollment was only $830. The industry average is reportedly between $4K - $5K, so our business model from an acquisition point of view is 5 to 6 times more efficient.

One of the key reasons our conversion rate is so strong is because we have the most innovative offering in the market. We offer our students the opportunity to earn their degree debt-free by allowing them to pay for their degree programs month-to-month. This 'pay-as-you-go' model effectively takes the fear out of entering school and worrying about going into tens of thousands of dollars of debt and never earning a degree.

Today we have over 2,000 students on monthly payment programs which represents total contractual value of $14.9 million. Monthly recurring tuition cash payments for monthly payment programs is now approximately $435,000 per month, as compared to approximately $100,000 per month a year ago.

Since we announced our debtless education solution a few years ago, Registered Nurses have been streaming into Aspen. Our quarter-over-quarter top line growth rate in the past five quarters has risen from 34% to 46% to 58% to 68% to today's 72% top line growth announcement.

In terms of student body growth, we're now projecting to add 2,000 students, net, this fiscal year, from the previous fiscal year growth rate of 1,500 students, net.

Jumping into a unit economic discussion, we've been closely following the education technology firms that are launching online degree programs for traditional non-profit universities. Quite frankly, they appear to be just as inefficient at student acquisition as the online, for-profit sector.

Their marketing efficiency ratio is reportedly 3 to 4 times, meaning that for every dollar of marketing spend, their expected lifetime value or total revenue earned on average is 3 to 4 dollars.

Well because of Aspen's internet advertising expertise, and because of our innovative debtless education offering, and finally, because we do a great job of supporting our students through to graduation, Aspen is pleased to announce today that our marketing efficiency ratio is projected to be approximately 8.5 times.

So for every dollar that Aspen spends to acquire a new student, we estimate earning on average $8 dollars and 50 cents in lifetime revenue. So our marketing efficiency ratio is more than double the average of the education technology sector.

Because of this efficiency, Aspen begins to generate a gross profit on its marketing investment within approximately 90 days.

Our lifetime value of a new student enrollment is approximately $7,000. In year one we earn approximately $3,100 or 44% of the $7,000, followed by approximately $1,500 or 22% in year 2, approximately $1,100 or 15% in year 3, and we're estimating the remaining 19% will be earned in year 4 and later.

That $7,000 in lifetime revenue is earned through approximately 8 courses completed on average earning about $6,400 in tuition revenue, with the remaining $600 earned in miscellaneous fees.

Moving ahead to a direct cost discussion. As you review our financial statements you'll note that Aspen chose to keep its marketing spend rate constant for the past three quarters, averaging approximately $150,000 marketing spend per month over the 9-month period. This tactical decision was a key component that led to the leverage improvements we've achieved in the past few quarters.

Another strategic move that led to the leverage improvements is the fact that our instructional costs and services actually declined quarter-over-quarter, even though our revenues rose sequentially by 23%.

The reason for this variable cost efficiency is our previously announced adjunct/full-time faculty hybrid model that Aspen has launched this calendar year.

Aspen has converted 5 adjunct faculty members to full-time status thus far this calendar year. As a reminder, the company achieves annualized cost savings of approximately $50,000 for each full-time faculty member hire vs. the previous model of paying all Professors on an adjunct basis at a rate of $150 per course completion.

All these decisions have allowed the company to show off the leverage potential in our business model, as GAAP gross margins rose from 48% to 59% over the past two quarters.

Finally, we've kept G&A relatively flat the past few quarters, only increasing the quarterly run rate by about $50,000 over the past 6 months.

These were all the factors that in combination allowed the company to deliver 11% Adjusted EBITDA margin this quarter, a 1,900 basis point improvement sequentially.

So now that we've shown there's great leverage in this business model, let's discuss our plans and projections for the current fiscal year.

First, we're increasing the size of our enrollment center by 20% this quarter in anticipation of increasing our monthly marketing spend rate by 20% starting in the second fiscal quarter. Given it takes about 3 months to break even on that incremental investment, expect our Adjusted EBITDA margin to decline slightly in the coming two quarters.

However, in the second half of this fiscal year you can expect the company to achieve over 15% Adjusted EBITDA margin. For the full fiscal year, we're forecasting at least 12% Adjusted EBITDA margin.

Finally, we expect our top line to continue to grow at a CAGR of at least 50%.

And, last but not least, we're forecasting that before the end of this fiscal year the company will begin generating a profit on a Net Income basis. We look forward to providing more formal guidance later in the year in terms of the full year Net Income forecast.

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

Howard Halpern

Congratulations guys. Great quarter, great year and I am assuming a great start to this current fiscal year is ongoing. First question is regards to, what percentage do you anticipate the school of nursing will comprise by the end of fiscal '17? Because I know you ended at about 54% in terms of the student body.

Michael Mathews

Good afternoon Howard and again thank you for attending today. It's been averaging about 1% a quarter. So it's been increasing about 4% per year. So assuming we ended the fiscal year at 54%, it should be into the high 50s. Perhaps it will hit 60 by the end of the fiscal year depending on growth but definitely you can expect approximately, at least 1% a quarter increase.

Howard Halpern

Okay. You talked about the leverage you have. Do you anticipate the leverage really continuing to bear fruit as you ramp up the revenue, especially in the second half of the year?

Michael Mathews

Yes. Definitely. We filed our 10-K this past hour and we have a discussion about that in the MD&A. So we are essentially reaching scale with our new business model which we launched, as you know, a couple of years ago. And as a consequence of that, as we continue to increase revenues at a 50%+ CAGR, the G&A percentage as a percentage of revenues is going to continue to decline quite significantly. Over the next couple of fiscal years, it will decline well below 50%. This year it was in the 70s. So, again, from a G&A perspective, we have most of the operations in place. So I don’t see a lot of increase from the basic operations of the business. The only material increase really that I would anticipate would be in our enrollment center.

Howard Halpern

Okay. And based on the growth trajectory, where would you like to see or hope to see that monthly number, $430,000-$435,000 per month. Where would you like to see that when you enter fiscal '18?

Michael Mathews

I am sorry, Howard, when you say $435,000 a month, you are referring to what?

Howard Halpern

The recurring -- what the debtless recurring revenue portion of payment plan, basically.

Michael Mathews

Well, in the past fiscal year, Howard, we have increased the recurring revenue on a monthly basis by somewhere in the vicinity of about $20,000 a month. So you can assume that it's going to increase by approximately a quarter of a million per year.

Howard Halpern

Okay. With just the general environment out there where we are in an election year and we have heard so much about from one side at least, and I don’t know how they go about doing it, but I guess they don’t call it debtless but they call it free education. But with all this talk, how do you think you are positioned going forward? I think you have talked a little bit about the competition or just the landscape out there, but how do you really think you are positioned to take advantage, maybe not just even in nursing going forward from your platform.

Michael Mathews

Yes. Now that’s a great question. So the Wall Street Journal put out an article back in March talking about the BSN completion program. There is approximately 50,000 new students starting those programs per year and they forecast that rate to continue. And we have recently announced that we are averaging approximately 1,000 BSN starts per year. So we have about 2% market share in our largest and fastest growing program. So, Howard, beyond the next two or three years, our near-term goal is to go from 2% market share to, in a couple of years, 5% market share or more.

So this debtless education model works perfectly for the nursing sector and it is true that there is no question that it will work in other sectors as well. But there is so much demand and the nursing occupation is growing so rapidly and so many nurses require BSNs because of the magnet status that hospitals are trying to achieve. It makes no sense for us to go outside of nursing for the foreseeable future.

Howard Halpern

Okay. I guess one last one. Is there any type of prospect for you, I know you are going to focus on the BSN program but the model and infrastructure that you have set up, is there any potential for partnerships out there with maybe brick and mortar universities?

Michael Mathews

There is certainly partnerships that we have implemented across the healthcare field and those are both public hospitals as well as healthcare firms and insurance companies, even. And we are are starting to generate a number of corporate partnerships in the corporate area, outside of even nursing. But are there partnerships available with traditional non-profits? I wouldn't think so. I would think that our approach is so unique from a business model and an economic point of view, it's so difficult to follow because of our acquisition efficiency, that frankly every single university in this country should be fearing us and fearing our growth because I don't think any of these folks are going to be able to follow us in the near-term.

Operator

Thank you. And our next question comes from the line of William Gibson with ROTH Capital Partners. Your line is now open.

William Gibson

I wanted to zero in, you talked about going to more professors full time versus adjunct professors. What's the percentage breakdown that you have?

Michael Mathews

So you want to know the exact percentage of...

William Gibson

Well, they don't need to be, just rough.

Michael Mathews

Yes. Okay. So we currently have 101 adjunct faculty members across Aspen and in the first six months of the year, we have converted five faculty members to full time status. Does that answer the question or you want more of a financial breakdown?

William Gibson

No, no. Actually that's good, because you mentioned that on the margin side, I haven't crunched the numbers yet. And it sounds like that trend continues, as you get bigger you convert more?

Michael Mathews

Yes. Absolutely. We have been able to convert all five within our school of nursing and our plans in the near-term are to double that over the rest of the calendar year. So if we have an annualized savings of about $50,000 per year, per full-time faculty member, then clearly we are looking to achieve a full annualized savings of about $0.5 million.

William Gibson

Okay. Good. Now let's say it stayed flat. Is there leverage here in the model anyway with more students?

Michael Mathews

Sorry, if what stayed flat?

William Gibson

Well. Okay, let's say you add 2000 net students next year, would you need to grow your number of professors by the same percentage or are you able to leverage the staff you have already got?

Michael Mathews

I would say that we would be able to leverage the staff that we have. So if we grow the university from, say 5000 to 7000, which is, what is that, approximately 40%. I would suspect that the adjunct faculty and the total faculty will grow by between 10% and 20%.

Operator

Thank you. And our next question comes from the line of Gregg Hillman with First Wilshire Securities. Your line is now open.

Gregg Hillman

A couple of questions. Number one, what is the support that you give students to help them to graduate, what's your graduation rate versus the industry for student starts. Are there some sort of statistics along those lines?

Michael Mathews

Yes. The statistics I have seen in terms of graduation rate across all colleges and universities in America is in the mid 50s. I forget the precise percentage, so I don't want to quote that. In our most recent fiscal year that we announced to our accreditor, the DEAC, our graduation rate was in the low 60s. So our graduation is appreciably higher than the average in America.

Gregg Hillman

Okay. And then also, speaking of accreditation, there were some things in the news recently that the Department of Education is to get more involved with more oversight over current agencies, accreditation agencies. Will that affect you, positively or negatively, or what's your take on that?

Michael Mathews

I think ultimately it's going to affect us positively. There is only one accreditor in the United States that has had a number of institutions that have failed or have come under significant compliance issues. And so that's why the Department of Education frankly has targeted them. And I have actually got a number of phone calls from both our accreditor as well as from schools themselves, asking if we would be open to helping some of these displaced students, assuming that happens, if we would help complete the education of these students. And certainly we would be open to that.

Gregg Hillman

Okay. That's pretty interesting. And then, Mike, also on the whole question of being rated by this disinterested third party. There's this Web site in Virginia, it is called geteducated.com. How do you rate on that system of any other disinterested third parties that rate your school?

Michael Mathews

I don't know. I would have to look at the reports to be able to comment on that. I apologize. I don't have that report in front of me.

Gregg Hillman

Okay. And what's the recognition, the name recognition for Aspen University for students or what percentage of kids around the country have heard of the name?

Michael Mathews

Well, first of all there are no kids that enter our university. Aspen University is a school of working professionals. 91% of our students that enter our school are currently employed. And as you well know, a majority of our students are actually registered nurses. Those registered nurses, in order to join our school, have to have a degree. They have to have an active registered nursing license and they have to have recent experience of at least a year of working as a registered nurse. So as a consequence, as obviously you can tell, we are primarily a graduate school. We help students obtain their next degree. And so, again, I would say that, in terms of answering -- if you could help me understand if I have answered your question and if you would like me to go any further on that?

Gregg Hillman

Okay. I guess the main question is, well, let's rephrase it. For your target market or your addressable market, what percentage of those people, these working professional nurses, have heard of the name Aspen University and know what it is?

Michael Mathews

That’s a good question. Let me try to answer it in a different way because we haven't done any quantitative surveys to understand name recognition which is something that would be very interesting if we did conduct. However, if you look at the enrollments of Aspen University, believe it or not, approximately a third of the enrollment of Aspen today are a result of students, mostly registered nurses, that find us on an organic or on a referral or a corporate partnership basis. So, in other words, a student of Aspen tells their registered nurse friend down the hallway, hey, go check out Aspen, it's a great program etc., etc.

I think it's unusual for a university to have approximately a third of their enrollments coming from referrals and organic means, which means we clearly have momentum in this sector and the name recognition is quite good.

Gregg Hillman

Okay. Speaking of, well, affiliations, do you have any joint ventures with big hospital chains in a given geographical area that will help subsidize the monthly tuition of these nurses.

Michael Mathews

Yes. So we have approximately 30 corporate partnerships today. Amongst those 30, we are not allowed to publically announce those partnerships. Those partnerships allow us to go to their specific hospital locations, set up tables and pass out brochures and other literature about our programs. And that continues to be a very effective way for us to continue to get the name out for Aspen.

Gregg Hillman

Okay. And I take it that a lot of these corporations are hospitals?

Michael Mathews

Yes. These are not joint ventures, to answer your question directly. These are corporate partnerships in which both parties sign a contract that they are going to perform a certain number of services. So we, of course, educate their students. We provide certain billing services. We provide a 10% tuition discount. And they of course give us access to their students through various means, both in location and electronically.

Operator

Thank you. [Operator Instructions] Our next question comes from the line of Brett Reiss with Janney Montgomery Scott. Your line is now open.

Brett Reiss

I just looked at numbers between the fourth and third quarter. You had 572 new students but the net total students went up 406. So does that mean, 166 students in the fourth quarter dropped out for whatever reasons?

Michael Mathews

No. Again, you have to realize, the way we define our student body, it increases on a net basis. So you have to look at the new student enrollments, as you quoted, and then you subtract that by the increase of the student body and that differential is two variables. Variable one are graduations, and variable two would be students that either withdraw voluntarily or of course if we withdraw them involuntarily for academic reasons.

Brett Reiss

Right. Okay. I will take a look at that. And then as you continue to grow and it looks like it's meteoric, which is fantastic. Are there any resources, people with the skill sets you need, that are in scarce supply that are going to inhibit your continued meteoric growth?

Michael Mathews

In short, no.

Operator

[Operator Instructions] Our next question comes from the line of Myron Goldstein with Equities.com. Your line is now open.

Myron Goldstein

My questions are based on the nursing. Couple of things. Do you find the nursing students tend to being a more dependable payer versus some of the other students? I presume that everybody pays their bills, so I guess what I am saying is, are the nursing more reliable payers?

Michael Mathews

I wouldn’t necessarily say they are more reliable payers. I will say that their persistence is actually better than other students in our university. So that’s part of the reason why this university is growing so rapidly and the financials are rapidly improving and showing leverage. One thing I think everyone should be aware of, I announced this previously. When we achieved the CCNE accreditation back in November of 2014, we made a decision that we would not add our BSN program to our Title IV programs listing. So we have to proactively add that program to what's called the ECAR (DOE), which is the list of programs eligible to offer federal financial aid. And the reason we did that is we believed that if we offered registered nurses who are essentially for the most part almost all employed, that they would select a monthly payment plan of $250 a month payable over 39 months to pay the tuition rather than wanting to obtain a loan, a federal financial aid loan.

And I can tell you with absolute certainty, now that we have been running this program for over a year and half, that we have hardly any registered nurses that say to us, “oh geez, I can't handle that $250 payment, it's just too much for me, I can't go to Aspen because you don’t offer federal financial aid for this program.” So I think we have clearly proven that for middle Americans across this country that are looking to achieve an advanced degree, that they would absolutely prefer to put $250 or $325 a month into their monthly budgets and not incur further debt.

Myron Goldstein

Okay. And my other question is, because of the great success you are having in the nursing, are you looking at maybe trimming some of the course offerings or other diplomas that you have been offering and cut back. Obviously that would reduce cost but I mean to be more focused solely, not solely, but more focused on nursing.

Michael Mathews

Well, actually, just to be clear, we announced several quarters ago that almost the entirety of our marketing budget is directed towards registered nurses for BSN and our MSN programs. So we have already done that.

Myron Goldstein

Okay. Not in terms of marketing but obviously, therefore you have cut back the offering of those courses, period.

Michael Mathews

No. We don’t plan to reduce the number of degree programs available from Aspen. We have five excellent schools of which nursing is one of five. And quite frankly, even though we spend nearly 100% of our dollars attracting registered nurses, it only represented I believe 83% of the student body growth last year. So 17% of the students that came into this university were not nurses and they find us, even though we don’t advertise, they find us because they hear about the monthly payment plan.

Operator

Thank you. And I am showing no further questions. I would now like to turn the call back over to management for any further remarks.

Michael Mathews

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

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program, you may all disconnect. Everyone have a great day.