

**Aspen Group Inc.**

**Fiscal Q1 2017 Earnings Conference Call**

**September 14, 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.

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I will begin today by reviewing our operational and financial results for our fiscal 2017 first quarter, then will turn the call over to the Chairman and CEO of Aspen Group, Mr. Michael Mathews to provide a business update.

To open, quarterly revenues were \$2,756,815, a 62% increase from the comparable prior year period. Although our first quarter is our seasonally softest quarter given it falls during summer months, we set a quarterly new student enrollment record in the first

quarter with 621 new student enrollments. Given we spent \$437,000 in marketing for the quarter, that means our cost-per-enrollment dropped down to \$703.

Aspen Group's gross profit for the first quarter increased 115% from the comparable prior year period to \$1,720,674 or 62% margin. This 62% gross margin result represents a 1,500 basis point improvement year-over-year and a 300 basis point improvement sequentially.

The gross margin leverage we delivered this quarter was a result of not only our marketing, cost for enrollment efficiency, but also via a reduction of our per student instructional costs. In the comparable quarter a year ago, we had 2,072 new class starts. This year, we had 3,335 new class starts, meaning we had 61% more classes starting year-over-year. However, our instructional costs only rose by 19% year-over-year.

Our previously announced plan to convert nursing faculty members to full-time status is the key strategy delivering this outstanding leverage. Our instructional costs as a percentage of revenue has now dropped to 17% of revenues from 23% a year ago.

Our net loss applicable to shareholders was (\$505,447) or loss per share of (\$0.01). That's an improvement of 30% from the comparable prior year period. EBITDA increased 41% from the comparable prior year period to (\$321,322) or (12%) margin. Adjusted EBITDA increased 180% from the comparable prior year period to \$238,526, or 9% margin.

Aspen reached a critical milestone this quarter as this was the first quarter in which we generated cash from operations of \$34,476. We expect cash generation from operations to continue to grow in future quarters.

I'd now like to discuss our G&A line from this past quarter prior to turning the call over to Michael Mathews, our CEO. To begin, note that we booked two charges in the quarter that were unrelated to the ongoing operations of the company. \$206,000 was a non-cash expense for a warrant buyback and another \$69,000 was a former employee litigation settlement. That's a total of \$275,000 of expenses unrelated to the ongoing operations of the company. If you exclude those items, our G&A only rose by approximately \$250,000 quarter-over-quarter. That increase was in part due to an

increase in payroll resulting from new hires in the enrollment center in Scottsdale and our academic operation in Denver.

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

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**Michael Mathews, Chief Executive Officer**

Thanks Janet. Good afternoon everyone. Much has transpired in the industry since we spoke seven weeks ago. In particular, the Department of Education announced that ITT Tech was no longer allowed to offer federal financial aid to new students, which caused ITT Tech days later to announce its intent to close all of its campuses.

30 months ago, I published a book entitled 'Let's Change Higher Education Forever,' in order to broadly communicate my point-of-view that the business model employed by a majority of legacy institutions in the online, for-profit higher education sector is fundamentally flawed because they have relied on purchasing non-branded, non-exclusive marketing leads from Internet marketing companies, which resulted in \$4,000 to \$5,000 enrollment costs. That level of marketing inefficiency has caused the legacy online for-profits to charge approximately \$2,000 per course, equal to the rates of traditional non-profit public universities, which in my opinion makes no sense and makes them uncompetitive long term.

Aspen has set out to prove that online for-profits can indeed thrive in the future, but only if they intelligently leverage Internet media and technology, focus on targeting working professionals looking to earn their advanced degree, and offer these hard working families the ability to pay for their education month-to-month thereby not layering more personal debt onto their personal balance sheets.

Students across the country, in particular Registered Nurses, prefer Aspen's business model after they conduct their research. Why? Because we allow students that pay for their tuition over a fixed period of months, fitting a \$250, \$325 or \$375 payment into their monthly budget depending on whether they're a bachelor, master or doctoral student, respectively.

We also allow our students the flexibility to complete their academic programs in whatever time frame they chose regardless of the duration of their monthly payment plan.

If a student's credit card charge fails to go through during the middle of a course, the student is allowed to finish the course, and they can begin again once the issue is resolved. And students on a monthly payment plan can withdraw at any time and we will immediately stop their month recurring billing.

This is a classic pay-as-you-go model, which takes much of the perceived risk out of entering school. All of these policies were designed with the student's best interest in mind, not the university's. It's funny how businesses become successful when the customer (or student in this case) is the center of a given business' universe.

Allow me to recap the differences in the legacy, online for-profit business model and Aspen's business model. First, they charge tuition rates per course of \$2,000 on average, we charge less than half that. They reportedly load students with over \$30,000 of federal financial aid debt on average, while over half of Aspen's students over the past 90 days have paid via a monthly payment method, thereby incurring no federal financial aid debt. They enroll primarily undergraduate students and among first time bachelor students, they reportedly have a graduation rate well below 30%, while Aspen enrolls nearly all working professionals looking to obtain an advanced degree and had a graduation rate last year of 62%.

My point is, the online for-profit education industry is alive and thriving for universities such as Aspen that are innovating and concerned with what's in the best long-term interests of its students.

Last week, we announced that we secured a \$3 million line of credit with our largest shareholder, Mr. Leon Cooperman. This was a critical moment in the Company's history as we now have a working capital facility that will allow us to double our enrollment center over the next 120 days, and subsequently double our marketing budget from \$180,000 per month to \$360,000 per month.

We chose this moment to implement this line of credit because we've now reached a level of scale that will allow us to implement this investment spending while delivering positive net income -- starting later this fiscal year. Let me be clear, we do not plan to

perform like a SaaS company that delivers strong growth but promises net income results years later.

To reiterate my guidance for full year fiscal 2017, we expect to achieve revenue growth of at least 50% year-over-year with at least 12% Adjusted EBITDA margin, and we are focused on turning profitable on a net income basis before the end of this fiscal year.

To give you an idea of our momentum, in the month of August, our first month of the current quarter, the Company generated nearly \$100,000 of cash on an operating basis. This puts us in position to handily exceed last quarter's result of \$34,476 of cash generated from operations.

Finally, I'd like to make a few announcements to our shareholders.

First, we will be sending out a proxy in the next several days to announce our upcoming annual shareholders meeting will be held on Thursday, November 3rd at 3pm in New York City.

In the proxy, we will be seeking approval of a reverse split of our stock in the range of 1 for 10 to 1 for 15. This is a critical step necessary to achieve the minimum share price necessary to uplist on NASDAQ, which is a goal of Aspen over the next 12 to 24 months.

In the proxy, you will also see that the company is nominating two new members to our Board of Directors.

The first nominee is Malcolm MacLean IV, who is the Founder, Managing Partner and Director of Star Asia Group based in Tokyo. Star Asia owns substantial real estate assets in Japan. Previously, Mr. MacLean was the President, Portfolio Manager and Head Trader for Mercury Global Real Estate Advisors, a global real estate investment firm.

Mr. MacLean has extensive experience as lead manager in originating, structuring and executing equity, debt and M&A transactions totaling in excess of \$15 billion while an investment banker for 15 years at Paine Webber's and Kidder Peabody's (now UBS's) real estate investment banking groups.

Mr. MacLean's investment banking experience, history of entrepreneurial growth successes and large business operational expertise will prove to be a great asset as Aspen continues on its high growth trajectory.

The second nominee is a former member of Congress for 36 years, from 1977 to 2013, Mr. Norman Dicks, who represented Washington State's 6th congressional district where he received a rare first-term appointment to the house appropriations committee, a committee he served on for his entire tenure in congress.

In addition, Congressman Dicks served on and chaired the interior appropriations subcommittee where he made environmental issues a priority. Congressman Dicks also became the chair of the defense appropriations committee, and concluded his tenure in Congress as top ranking democratic member on the defense appropriation committee, and top ranking democrat on the house appropriations committee.

Finally, from 1990 - 1998, Congressman Dicks served on the house intelligence committee and was awarded the CIA directors medal.

Today Congressman Dicks serves as Senior Policy Advisor at Van Ness Feldman, advising clients on a wide range of public policy, strategic and regulatory issues, particularly those in the environmental sector.

Given the regulatory nature of our business, and given the debtless education mission of Aspen University, Congressman Dicks is a great fit to advise myself and the Board through these upcoming critical years in which we intend to offer our debtless education solution to adults across America.

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**

And our first question comes from the line of Howard Halpern with Taglich Brothers.

### **Howard Halpern**

Hi guys. Congratulations. Great quarter, continued great move forward. First question is in regards to, I guess when exactly are you going to begin doubling your investment in marketing?

### **Michael Mathews**

Good afternoon, Howard. This is Mike Mathews. Thanks for the question and I appreciate your attendance today. So the answer to your question is actually fairly simple. We actually began increasing the size of our enrollment center during our previous quarter, the July quarter that we just announced our earnings on. It's going to take us probably another 90 to 120 days before we will have accomplished our goal of doubling the size of our enrollment center. So we plan to double our budget as soon as we're completed with the doubling of the call center, so it will be some time after the new year.

**Howard Halpern**

Okay, the doubling of that we'll assume would be sustainable costs. But are there costs involved in this next period of time that -- while they'll be part of your operations -- are more one-time in nature?

**Michael Mathews**

I don't really see much one-time charges in future quarters. We of course had the warrant expense (the buyback expense), which is a significant hit to our net income this quarter, as well as the former employee litigation settlement. Those types of activities, I don't expect much of that on a go-forward basis.

**Howard Halpern**

But will there be any infrastructure costs associated with the doubling that we should factor in the next one or two quarters?

**Michael Mathews**

Yes. So today, we have approximately 6,000 square feet in our Scottsdale office, and we're currently looking at doubling the size of our office this coming January. We can handle the increase of our employee base that we have planned through the rest of the calendar year and then we're looking to move into a larger space in the same building that we reside in just after the new year. So we'll have some expenses in terms of our move, and of course there will be some capital equipment required for the new employees, so yes.

**Howard Halpern**

Okay. I guess maybe more of a big picture question. I know you talked a little bit about ITT and what's going on there, but is there anything more that you have planned in the

works? Especially with your position in the online education community either through additional certification or what could you do basically to strengthen your position and your foothold in the online community?

**Michael Mathews**

Well, today as everybody knows, we are primarily a nursing school. All of our marketing budget today and over the next year or two, it is going to be oriented almost entirely against the Registered Nursing community. Obviously, you can see the spectacular results that we just achieved, I don't know any e-commerce company that converts its leads at 11.2%. So it's an amazing result, and it's a testament to the tremendous employee base that we have at Aspen.

However, our long-term plan is to ultimately move into all categories of degree seeking (working professional) degrees; business, technology, education, criminal justice, psychology, and some of those programs lead toward licensure, for example teaching license and in order to ultimately offer those degrees, our university will ultimately need to be regionally accredited.

Today we're a nationally accredited institution. So if you're looking at the long-term, over the next two to three years you should expect us to make some strategic moves related to becoming a regionally accredited institution.

**Howard Halpern**

Okay, well keep up the great work guys.

**Michael Mathews**

Thank you.

**Operator**

Thank you. And our next question comes from the line of David Lilly.

**David Lilly**

Good afternoon. I have a series of questions. Can I just list them -- enumerate them and then you can answer them as you see fit.



## **Michael Mathews**

Sure.

## **David Lilly**

Okay. Thanks so much. The first one is, what is or are the comparable products in the marketplace and what singularly separates ASPU from the rest of these competitors? That's the first question. And the second question is, do we have a scheme to approach the abandoned ITT students? My third question is, other than nursing, what will be your most notable area of study in actual growth or intended area of expertise. My next question would be how did you gain Leon Cooperman's confidence as an investor? I've followed him for many years, I've been in banking for many years and finance, and I'm impressed with his results, as well as yours. And lastly, could you please repeat the reverse split detail? Thanks for taking my questions.

## **Michael Mathews**

Yes. David, I haven't met you, so welcome to Aspen's first quarter fiscal year call. I'm not sure if I've ever received a five-part question before, so I think I have all the questions, I'll try to answer them one at a time.

So our unique differentiation has to do with the executive management of Aspen. Myself, the CEO, and our Chief Operating Officer, Mr. Gerard Wendolowski, both come from Internet marketing backgrounds. What we did when we took over the university in late 2011, we began the process of building technology to bring our marketing and advertising in-house. So we don't buy leads from third-party Internet marketing firms.

We're using technology to very intelligently target prospective students. And as a result, our average cost per lead is between \$70 and \$80 -- with the conversion rate of 11.2% -- that's what gets you into a cost of enrollment of somewhere between \$700 and \$800 on average. Obviously this past quarter was \$703. So our cost of enrollment is really the fulcrum that allows our business model to be so differentiated. Once we got our cost of enrollment below that \$1,000 mark, we launched this debtless education solution, which allows students for the first time in higher education history, to just simply pay month-to-month to pay for their education.

It's a really simple change, but if you think about it, in the history of higher education there has never been a university until Aspen that has said to its students, you know

what, you don't have to pay your tuition before you begin the semester or before you begin the term. We instead say, we're not going to do that, even though that's been done for centuries. We said, we're just going to allow you to start paying month-to-month, in a pay-as-you-go model. So in a couple of minutes or less, that's what makes us so unique. As far as I know, we're the only large online university in this country that's allowing students to pay for their education with a monthly payment plan over a fixed number of months.

Your question about ITT, it's a complex question. We do have some academic programs that overlap with ITT Tech. But they tend to have mostly undergraduate students, which Aspen doesn't really focus on, we focus more on working professionals looking to achieve their advanced degrees. So there are some opportunities for us to go ahead and support these displaced students and bring them into Aspen and accept their transfer credits. We have spoken to ITT Tech about our offer to help and we're listed on their website currently as one of the university's that students can reach out to for transfer.

In terms of intended areas of expertise, you must not have been in any of our recent calls because we are very much focused on growing our nursing school. We're one of the largest nursing schools in America today. We have somewhere in the vicinity of 3,000 nursing students in America, all Registered Nurses. So we are one of the largest nursing schools in America and we are increasing our nursing school by over 100 students per month currently.

In terms of Leon Cooperman, one of our shareholders has done business with Leon in history and I was introduced to him and I spoke with him about our debtless education solution and the fact that not only is this a business that has great potential from an economic and a financial point of view, but it's also a great social model to allow students around this country to get an education, to achieve their degree, without incurring additional personal debt.

The reverse split that we are going to insert into our proxy is going to our shareholders to vote to allow Aspen on a go-forward basis to split the stock -- reverse split the stock by a ratio of 1:10 up to 1:15.

**David Lilly**

Okay.

**Michael Mathews**

I believe I answered all five questions.

**David Lilly**

You did. And my only amendment is, if you were going to have a second area of study, what would be the next singular area of study that you would concern yourself with, or is that really not part of the dialogue right now?

**Michael Mathews**

Well, in the near term it's not really part of the dialogue. However, we have a very strong doctoral program in our school of education and we have started doing some testing of that program in addition to spending a vast majority of our marketing on nursing.

**David Lilly**

OK, I'll try to see you in New York.

**Michael Mathews**

Thank you.

**Operator**

Thank you. And our next question comes from the line of Dan Giachin, a private investor.

**Dan Giachin**

Hi, how are you, Mike and Company? Thanks for the opportunity to attend today and great news on your earnings reports and the direction you're taking the company. My question is sort of related to the question from the previous gentlemen around competition. What do you see as the major obstacles and threats for Aspen Group to achieve, what you are trying to attain over the next two to four years?

**Michael Mathews**

Well to be honest with you Dan, we don't have any Universities in this country that are approaching working professionals in the way that we are approaching them with our

debtless education, monthly payment plan. So at this point, we are in a very special, unique position in the marketplace. And based on our financial results, the level of growth of our nursing school, quite honestly unless one of the large institutions decides to throw their business model out the window and try and copy us which would be potentially a financial -- a gigantic financial risk, I don't see any of the major institutions following us in the coming quarters, if not years.

**Dan Giachin**

Okay. That's excellent, just a follow up question. What do you see as the barrier to entry for doing that, if this model is so successful?

**Michael Mathews**

Well, it's just a simple of case of unit economics. These Universities enroll students between \$4,000 and \$5,000 on average. So they charge \$2,000 a course so that they breakeven on a gross profit basis after about two course completions. If they were to just decide overnight to cut their tuitions in half, their unit economics, their gross margins would be so bad that I don't think that they would have a long term business model that would be financially viable.

**Dan Giachin**

Great to hear. Thank you for the opportunity.

**Operator**

Thank you. And our next question comes from the line of Brett Reiss from Janney Montgomery Scott.

**Brett Reiss**

Great quarter, I mean maybe small potatoes in the scheme of things but why would you pay off a \$250,000 secured line of credit with 12% money? I assume the interest rate on the secured line is less than the 12%. Is there a reason you want to just clear the decks of that secured line?

**Michael Mathews**

Yes, there is a reason. So the secured line that we had required that there was no other debt that was senior to that line. So when Leon Cooperman came in and he's senior secured, we were required at that point to retire it.

**Brett Reiss**

Got you. And if you get the vote to do the reverse stock split, it will then be in your discretion whether it's 1 for 10 or 1 for 15. What will dictate whether it's closer to the 1 for 10 or 1 for 15, is it how the market price of the stock reacts in the near term to the good results you are posting?

**Michael Mathews**

Yes, exactly. So we'll follow the valuation of the company and let that dictate ultimately what the timeframe of the reverse split is and the level of the reverse split.

**Brett Reiss**

Right. What stock level after whatever the ratio is to achieve the uplisting, what do you need, is it \$2, \$3, what's the comfort number?

**Michael Mathews**

Well in a perfect world, we'd would be between \$3 and \$4.

**Brett Reiss**

Right. Okay great, thank you for taking my questions. And wow, that's all I can say. Fantastic.

**Michael Mathews**

We are just getting started Brett.

**Brett Reiss**

Okay keep it going.

**Operator**

Our next question comes from the line of Peter Godfrey, another private investor.

**Peter Godfrey**

Good afternoon guys, Michael, Janet, thanks very much for the stellar quarter, congratulations. You mentioned a \$70 to \$80 lead cost and 11% there about conversion rate. I imagine the skill of the telemarketing force that you have is quite important there. Is that part of your secret source in getting the lead cost so low, or the acquisition cost so low?

### **Michael Mathews**

Yes, by the way good afternoon Peter, thanks for calling in today. There is a number of variables related to our success. The first variable is as you say, we have just a phenomenal staff in our enrollment center in Scottsdale. I would put those 27 people up against any enrollment staff in the country. We spend a tremendous amount of time on training and continually training. So that's the first thing.

The second thing is, for those of you shareholders that listen to me talk about how unique this debtless education approach is, and hopefully you hear the passion in my voice. The reason for that is, I listen to phone calls every day in our enrollment center and I'm listening to these Registered Nurses call us and say geez you're telling me that I can, in this case get a BSN by paying \$250 for 39 months. And they say well we've looked at the rest of the industry and it costs \$20,000 to \$30,000 at these Universities and you are telling me I can just pay month-to-month?

And they indicate that they literally are in shock, that a University would set up a system to benefit them and not the university -- to ensure that they don't go into debt. Believe it or not we actually have some students that want to know if it's a trick, this approach is that unique and that beneficial to our students. So the combination of having great people in the enrollment center and having an offer to this Registered Nursing community at this time that just is so unique, that when nurses hear about the specifics of the program, they enroll.

### **Peter Godfrey**

And my question was going to be, how long does it take to double the size of your team and to get them to the same skill level as the people that you have currently. I imagine it's not an immediate leap forward.

### **Michael Mathews**

No, what we're looking to do is we're going to have three groups of new hires that we're going to hire and then train over the next 120 days. And so we'll probably look to bring in a team of seven or eight people every six weeks over the next handful of months. And we'll train them for a minimum of two to three weeks before they'll ever be allowed to go on the phones and represent our great university.

**Peter Godfrey**

Okay. That's great, thank you very much and thank you for inviting us to the call.

**Michael Mathews**

Have a good afternoon Peter.

**Operator**

Thank you and that concludes our conference for today. We thank you for your participation and you may now disconnect. Everyone have a great day.