**Aspen Group Inc.**

**Fiscal Q2 2017 Earnings Conference Call**

**December 12, 2016**

**Janet Gill, Chief Financial Officer**

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 2017 second 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 margin, EBITDA, Adjusted EBITDA and Net Income. Actual results make 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 second quarter, then turn the call over to the Chairman and Chief Executive Officer of Aspen Group. Mr. Michael Mathews, to provide additional comments on our results.

To open, quarterly revenues were $3,465,026, an 81% increase from the comparable prior-year period. Our second quarter is our most favorable seasonal quarter giving it falls during the fall months. Consequently, we set a quarterly new student enrollment record in the second quarter with 811 enrollments compared to last quarter's record 621 enrollments.

From a year-over-year perspective, the 811 enrollments was an increase of 46%, however the marketing spend of $483,000 in the quarter represented a spending increase of only 42%. That translated to our rolling six-month average cost-per-enrollment dropping down from $852 to $718, an improvement of 16% year over year.

Aspen Group's gross profit for the second quarter increased 130% from the comparable prior-year period to $2,101,373 or 61% margin. This 61% gross margin result represents a 1,300 basis point improvement year over year.

The gross margin leverage we delivered this quarter was a result of the marketing, cost-per-enrollment efficiency just mentioned, as well as the reduction of our per student instructional costs.

In the comparable quarter a year ago, we had 2,238 new class starts. This year, we had 3,730 new class starts, meaning we had 67% more classes started year over year. However, our instructional costs only rose by 42% year over year.

Our hybrid faculty model is the key strategy responsible for this improvement, as we continue to convert our most active nursing faculty members to full-time status. Consequently, our instructional costs as a percentage of revenue has now dropped to 16% of revenues from 20% a year ago.

This was our first quarter delivering positive GAAP Net Income, as we delivered Net Income applicable to shareholders of $116,541 or earnings per share of less than $0.01 per share. That's an improvement of 116% from the comparable prior-year period.

Operating Income increased 124% for the comparable prior-year period to $171,512 or 5% margin. EBITDA increased 155% from the comparable prior-year period to $310,517 or 9% margin. Adjusted EBITDA increased 268% for the comparable prior-year period to $469,629 or 14% margin.

The Net Income, EBITDA and Adjusted EBITDA results all represented records for the company.

In addition to the stated improvement in our gross margin, the other key reason for the dramatic improvement to the company's bottom line was the fact that our G&A increased only 19% year over year. Specifically, general and administrative costs were $1,919,653 as compared to $1,610,202 for the same period the prior year, an increase of $309,451 or 19%.

Finally, for the six months ended October 31, 2016, Aspen generated cash from operations of $26,323, a 103% improvement from the comparable prior year period.

Now I'd like to turn the call over to Michael Mathews to provide additional color on our outstanding results today.

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**Michael Mathews, Chief Executive Officer**

Thanks Janet. Good afternoon everyone. As you’ve now heard, this was the best quarterly result in the company’s history. Our second fiscal quarter is our most favorable seasonal quarter given it falls during the ‘back to school’ months, but our results even beat our aggressive internal targets.

In order to produce a sequential revenue increase over $700,000 or 26%, and in order for Net Income to improve by $622,000 sequentially, several operational improvements must take place besides simply seasonality.

First, we crushed our previous quarterly new student enrollment record of 621 by delivering 811 enrollments. That means we beat our previous quarterly enrollment record by 31%. Last year, in the October quarter, we delivered 557 new student enrollments, meaning that the 811 enrollments we just achieved was an increase of 46% year over year. At the same time, we only increased our marketing spend by 42% year over year.

As Janet mentioned, that translated into our cost-per-enrollment actually declining by 16% year over year while we’re in the middle of substantially increasing our advertising spend rate.

Congratulations are in order to our enrollment center in Phoenix which now employs 31 enrollment advisors, up 48% from 21 enrollment advisors a year ago. In delivering the record 811 new student enrollments this quarter, our enrollment center broke a record by achieving a conversion rate of 12%. That's right, 12% of the leads generated this past quarter turned into enrollments.

We're proud to disclose today that enrollments generated from organic, in other words non-paid lead sources, rose to over 30% of the total. This is a great indication of a university that is delighting its student body because these students are telling their co-workers to come to Aspen because of the excellent experience that they're having.

One of the key reasons why our students are having such a great experience is the amount of effort we expend in proactively helping our students succeed. By way of example, every new student is assigned an academic advisor whose job is to support that student through their entire academic career at Aspen, from the day they register for their first course all the way through to graduation.

Speaking of our academic advising team, because of our student body growth, we've hired four additional academic advisors in our Denver academic operation since mid-year. Every new student's first experience at Aspen is a one on one orientation with their academic advisor before they start their first class, which is a walkthrough of the classroom, a review of the curriculum and academic expectations, and we give technical guidance as needed.

We also give our nursing students early access to our nursing café which is a community of Aspen's nursing students that interact and support each other. Additionally, we give our new students access to our student learning center before they begin their first class so they become comfortable with all the academic support resources available. All that support is provided before they even begin their first course at Aspen.

Once students begin, we have an early alert system that tells us if a student is struggling. Examples of early alerts include an unsatisfactory grade, a late academic submission, and inactivity, to give a few examples. Our academic advisors contact students immediately after an alert is generated and they are well versed at providing proper consultation to help students resolve the issue.

Providing world-class support to our students is what leads to higher levels of persistence, higher graduation rates and as we announced a few weeks ago, higher levels of activity in the form of class starts.

This past quarter, Aspen's student body began 3,730 new classes compared to 2,238 classes a year ago, an increase of 67%. That of course is a critical metric that leads to our revenue result.

That class start increase of 67% is substantially higher than the increase of our active student body year over year, which grew by 54% from 2,422 active students to 3,726 active students.

Please be aware that on a go-forward basis we will now exclusively be reporting our active student body, which we define as a student that was enrolled in a course during the quarter reported or is registered for an upcoming course. This student body definition is more closely aligned with the definitions used by other publicly traded for-profit institutions, so that's why we decided to make the change.

The key purpose of the change is to allow shareholders to more effectively model our growth. Our active student body and the number of new course starts from that active student body translates to over 90% of our revenues, with the remainder being miscellaneous fee revenues.

Okay, back to the analysis. A year ago we had 2,422 active students and reported 2,238 new class starts, meaning that our active student body in the second quarter a year ago started 0.92 courses on average which equates to 3.7 courses on average per active student on an annualized basis.

This quarter, a year later, we reported 3,726 active students and 3,730 new class starts, meaning that our active student body is now averaging exactly one course per quarter or four courses per year. That's an 8% increase year-over-year in terms of the number of courses on average being taken per quarter per active student.

The 8% increase in class start activity year over year is in large part due to the active nursing student body growing year over year from 57% to 68% of the total active student body.

As we previously disclosed, Aspen's registered nursing students start more courses on average per year and complete their academic program more expediently than non-nursing students.

So to recap, outside of seasonality, the combination of record new student enrollments based on our 12% conversion rate, combined with our active student body taking more courses per year, combined with our average tuition rate rising by 4%, are the key factors that translated to the 81% revenue growth year over year.

In terms of our plans for growth for the remainder of the fiscal year, we're continuing to grow our enrollment center in Phoenix. We're targeting to add another 12 enrollment advisors over the coming 60 to 90 days, and once that’s accomplished we plan to increase our marketing spend rate to approximately $360,000 per month from last quarter’s $229,000 per month on average. That will equate to a 57% increase in monthly marketing spend as we enter next fiscal year.

One final comment in terms of the topline. We have some exciting growth plans in place within our school of nursing which we will announcing in the coming quarters. These growth plans are intended to expand our academic offerings beyond our existing Bachelor of Science in Nursing and Master of Science in Nursing programs, so stay tuned.

In terms of our sequential Net Income improvement of $622,000, three key factors led to this marked improvement.

First, our gross profit rose $382,000 sequentially based on the fact that revenues rose by 81% or $708,000 while our direct costs only rose by $326,000 given that our marketing and instructional costs both rose by only 42%.

Second, last quarter we incurred $269,000 of one-time, non-recurring expenses related to a warrant extinguishment and a litigation settlement.

Thirdly, note that our G&A, not including the one-time charges last quarter, only increased sequentially by $12,575. This type of cost control allowed us to drop our G&A as a percentage of revenue from 79% to 55% sequentially.

One final update before I complete my prepared remarks for this afternoon. Certainly everyone that follows the company knows that our unique business model of offering monthly payment plans to students has been the key growth driver over the past few years.

I’d like to end my remarks today by announcing that students paying through a monthly payment method grew sequentially from 56% to 59% of our total new class starts. As a consequence, our monthly recurring tuition cash payments for monthly payment programs is now approximately $550,000 per month, as compared to approximately

$150,000 per month a year ago. As you would expect, that $550,000 is over 50% of the total cash we now receive on a monthly basis.

Finally, as a consequence of monthly payment programs becoming the payment method of choice among now 59% of Aspen’s new class starts, our HEA, Title IV program revenue dropped from 33% of total cash receipts in fiscal year 2015 to approximately 28% for fiscal year 2016. And we're tracking to be well below 28% for this fiscal year 2017.

That ends our prepared remarks for this afternoon. Now we like to open the call to address any questions.

**Question-and-Answer Session**

**Operator**

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

**Eric Martinuzzi**

Thanks. Congratulations on a really successful Q2, it’s terrific to see all those metrics point in the right directions.

**Michael Mathews**

Thanks Eric, good afternoon.

**Eric Martinuzzi**

I wanted to revisit the guidance, you didn't specifically address it in the prepared remarks. Previously you talked about growth of at least 50% compound annual growth rate and then Adjusted EBITDA margins of at least 12%. Those seem less ambitious now, is maybe the best way to phrase it, as the first half of the year you’ve already grown about 70% on the revenue and you just printed 14% adjusted EBITDA margin. Would you care to comment?

**Michael Mathews**

Sure, I'd be happy to comment. So, we've made a decision that we're going to update our guidance for the full fiscal year at the end of next quarter which will be a bit closer to the full fiscal year in terms of accuracy and forecasting. There is no question that our 50% CAGR and our minimum 12% Adjusted EBITDA margin that's our current guidance, it's something that looks quite good for us to achieve. But again, today we're not prepared to update the guidance and we'll look to do that next quarter.

**Eric Martinuzzi**

Okay. And then just every time I think the cost of enrollments can't get any more attractive, you guys continue to show that they can. I know there's a lot of levers you pull, attracting new students. Could you address what seems to be catching fire here amongst those different levers you can pull?

**Michael Mathews**

Great question. So a couple of different things. Number one, we really enjoyed terrific seasonality this quarter. There is no question that our second fiscal quarter, which again falls during the very heavy August, September, October, fall months, that helps a lot. There's no question. The second thing I would say to you is that in my prepared remarks, I mentioned that last quarter, we actually rose to over 30% of our enrollments were a result of a lead that was not generated through paid media. So, it was organic in nature.

And so, that's a clear indication that while our cost of enrollment for the last couple of years has been in the $800 to $850 range, we've been very fortunate that our business is becoming very, very, how shall I say, our student body is very positive about their experience with Aspen and about the business model and they're telling their co-workers. These types of referrals quite frankly are accelerating which is what's allowing our cost of enrollment to, as you can see, drop below $800. But again, I would continue to say that we're very confident in the coming quarters that we'll continue to be in that $800 to $850 range and I think dipping into the low $700's I think is mostly a consequence of the seasonality this quarter, combined of course with the ratio of organic enrollment continues to improve, which is obviously a great reflection on our quality of academics and the job that our support personnel are doing.

**Eric Martinuzzi**

Okay, thanks. And one last question for me. The shareholders approved a reverse stock split; any greater clarity on the sense of timing and the ratio?

**Michael Mathews**

Yes. So we're planning to implement the reverse split following approval from FINRA. We expect that approval to come relatively soon. So please stay tuned, we will be making some announcements in the very near future.

**Operator**

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

**Howard Halpern**

Congratulations, guys. Great quarter. First question is, you talked about seasonality, but is it seasonality more in terms of enrollments or revenue going forward?

**Michael Mathews**

That's a great question. When I talk about seasonality, it really reflects both variables. So there's really two seasonal periods that are quite good. One is again, the August/September timeframe, sort of the 'back to school' timeframe and then amongst working professionals, January actually is the best month of the year. But this quarter that we're in now, December is a bit of a soft month, so they sort of counteract each other a little bit.

So definitely seasonality from an enrollment perspective is critical, but also we find that our students also start new courses in the fall quarter and in the January, February, March timeframe. So again, there's a bit of a back to school mentality as well as kind of a New Year's resolution type of a mentality that happens amongst working professionals.

**Howard Halpern**

Okay. And then you talked about hiring some more in your enrollment center and then once they're I guess up to speed, increasing the marketing spend. So the increase of marketing spend should kick in some time in your Q4 period?

**Michael Mathews**

Yes. Our fiscal Q4. We're looking to increase our spend rate, starting in the month of January actually, which is our last month of this quarter. And we have been adding about four enrollment advisors per month over the last few months. And again, we're looking to add another four on average over the next 60 to 90 days, which will get us into that low-40s total group.

**Howard Halpern**

Okay. And just what is your, I guess, three year contract value now up to?

**Michael Mathews**

It's in excess of $16 million. I think it was $15 million a quarter ago. We were adding about $1 million a quarter right now.

**Howard Halpern**

Okay. So 811 new enrollments, does that mean that they have started and are in the calculation or does some spillover into the current quarter that we're in?

**Michael Mathews**

So, a new student enrollment is a student that has been accepted in the university. They've registered for their first course and they've made a payment for that first course, but they could possibly start say 30 days later. And I think one of the reasons why we're now shifting to an active student body count is that really is a much better metric in terms of following our revenues from quarter to quarter. And that's why we introduced that today. We're thinking that's going to be much more useful for our shareholders to track and model this.

**Howard Halpern**

Okay. And in that regard, what is the number that you would like to get out there for I guess net new active students per month that you are likely to gain?

**Michael Mathews**

Yeah. We actually put that information today in our 10-Q. I don't have the number right in front of me, but I want to say it's approximately, it's over 100 per month that we're going to be adding. Active, and again, the active student body includes any withdrawals, any graduations and such. Right? So that’s a net number of students who are actually active in a course.

**Howard Halpern**

Okay. And I guess one last one, you talked about word of mouth for nursing students, but has that spilled over at all into non-nursing students. I know that's not a big part of the school, but not everybody I guess in the hospital is in nursing, and if they hear about Aspen, do they call and check it out?

**Michael Mathews**

By the way to your last question, I want to update, we just specified in our 10-Q that we're tracking at approximately 1600 students on an annualized basis this fiscal year. So it’s quite a bit more than 100 a month. Could repeat the question again?

**Howard Halpern**

Yeah. In terms of the word of mouth for the nursing student population and in hospitals, not everybody's a nurse, has, I know it's not a big part of your business right now, but have other types of individuals who are not interested in nursing contacted you just by word of mouth?

**Michael Mathews**

Absolutely yes. So our referrals are organic leads, they are not only nursing specific organic leads. So we will have students that will contact us either through our website or by calling our 800 number, because they’ve heard about our monthly payment plan. That happens quite often regardless of the degree that the student is seeking.

**Howard Halpern**

Okay. And I promise this is the last one, what is your view of the potential of any potential changes in the landscape, given the new administration coming in and new Department of Education starting up? Do you see any kind of drastic changes going on in the near future?

**Michael Mathews**

Well any drastic changes that will take place will take quite a bit of time, because any of the existing rules that are in place, those are legislated rules. So that would take quite some time for the new administration to update or change. What’s more, the for-profit industry is thinking that there's certainly every possibility that in the meantime the administration could make a decision for example to not enforce the new gainful employment rules, that’s something that is kind of rumored to be possible. But again it’s very early of course, as the administration isn’t entering until next month.

So we will see. There are, I will say that there were quite a number of for-profit universities that failed that first gainful employment results published. They published the first results for all for-profit universities back in July. And of course, the Apollo Group is the only for-profit I’m aware of that actually announced that they failed a number of their programs. So clearly, it is potentially great news for the for-profit sector long term and of course as I'm sure as everyone knows, we began as a Title IV institution in 2009, so we don’t even have any results yet.

**Howard Halpern**

Okay. Well, congratulations and keep up the good work guys.

**Operator**

And our next question comes from the line of Jeff Kobylarz of Diamond Bridge Capital. Your line is now open.

**Jeff Kobylarz**

Hi, Michael. Congrats on the great numbers. Just curious about, in nursing, in the MD&A, it says that nursing will add this year out of the 1600 new students, new active students this year, 1,320.That’s still less than 3% of, if the Wall Street Journal number is right, the 50,000 new nursing students per year. So is that the right way to think about it?

**Michael Mathews**

No. You got the numbers wrong. So yes, 1,320 is in fact what we’re on pace to add and those are active nursing students. So you guys are going to have to kind of get with the new methodology. The active student count is the exact number of students that are actually in a course in the most recent fiscal quarter or they’re registered the next period of time for their upcoming course. We use this to only announce our active total student body, another 30% or 40% of the students could have been inactive, okay. So, this 1,320 is our active count only and that includes net any nurses that have graduated, any withdrawals, et cetera.

**Jeff Kobylarz**

Right. Okay. I get that. I was just wondering about your market share relative to the entire USA industry and so it seems like it's growing awesomely, but I just was curious just wanted to just make sure I was talking apples to apples as far as what the Wall Street Journal said sometime earlier this year about the number of new nursing students per year. I thought it was 50,000 per year?

**Michael Mathews**

Yeah. You're correct. There's approximately 50,000 registered nurses that begin a BSN completion program every year for the last like three years, that's correct. And if you look at our total enrollment, last quarter, of course, we did 811, the quarter before was 621. So we had about 1450 or so. So we're pacing towards potentially adding perhaps 3000 enrollments for the full year, right. And 1,320 is the current active nursing count year-over-year, so again, those are two different metrics, right?

**Jeff Kobylarz**

All right. So, 1,320 is the net number.

**Michael Mathews**

Yes. And not only is it the net number, but it's a net active number.

**Jeff Kobylarz**

Yes. Right. Okay. All right. Do you have a feel about what your normalized market share will be when you're at $360,000 marketing spend per month?

**Michael Mathews**

We're expecting to be averaging probably and again, are you asking total enrollments or just nursing specific?

**Jeff Kobylarz**

I'll just stick with nursing just to keep it simple for me?

**Michael Mathews**

Yeah. I would say that we're probably going to be adding between 250 to 300 enrollments per month at that point. And just in nursing per month. Because our nursing enrollments typically are between 70% and 80% of the total. So that's how I arrived at that.

**Jeff Kobylarz**

Okay. Fair enough. And so, these inactive students and then a total student, so the ones that are just kind of in that limbo, do they sometimes just gradually come back into your system or do they?

**Michael Mathews**

Yes. Good question. So let me explain. Our students are required to take a course at least once every six months, every 180 days. So there are many students that only take a few courses a year. It happens often. So again, the active student body are the students that are actually in a course in that recent fiscal quarter, right. We announced today that of our total active student body, we have 3,726 students that were active last quarter. The total student count is probably at least 1,500 more than that if you add in the inactives.

**Jeff Kobylarz**

Okay. All right. And just one last question, given your general comment about your cash flow from operations, I mean will you be, seems like you're going to be generating free cash flow this year. Well, can you give any guidance for CapEx and just comment about your CapEx plans for this year?

**Michael Mathews**

Yes. We don't plan on significant CapEx. So that's not a significant part of our financials. What you will notice, as we continue to grow, the monthly payment plan is one of the major reasons of course why we're so successful. And so, the monthly payment plan allows students to pace their academic program at whatever pace that they choose to take it. So some of them accelerate and complete their program in say 18 months to 24 months. The payment plan is approximately a three year payment plan. So when you look at our balance sheet, you will see that accounts receivable in the last quarter for example rose by about $700,000 sequentially.

Today our student payments lag our earned revenue by about 15%. That 15% amount this quarter was about equal to our adjusted EBITDA, which was $400-some thousand dollars. So if you look at our revenues and then you look at the cash that we generated, that is the difference. And that's the reason why we had Net Income of $116,000 and our cash generated from operations was around $30,000 over the first six months. So does that make sense?

**Jeff Kobylarz**

Yeah. I believe so. I'll also think about it.

**Michael Mathews**

Yeah. So just real quick, the cash generated from operations is lagging revenue because the monthly payment plan collects the money at a slightly slower rate than the revenue that's been, of course, earned from the students. That's the simple concept.

**Jeff Kobylarz**

Got it. Okay. All right. Thanks very much, Michael.

**Operator**

Thank you. And I'm showing no further questions at this time. I would now like to turn the call over to management for closing remarks.

**Michael Mathews**

Thank you everyone. I appreciate your time today. The team looks forward to talking to you in the coming quarter. 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.