

Aspen Group, Inc. (NASDAQ:[ASPU](#)) Q2 Fiscal 2021 Earnings Conference Call

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Company Participants

Michael Mathews - Chairman & Chief Executive Officer

Frank Cotroneo - Chief Financial Officer

Conference Call Participants

Darren Aftahi - ROTH Capital Partners

Mike Grondahl - Northland Securities

Eric Martinuzzi - Lake Street

Austin Moldow - Canaccord Genuity

Jeremy Hamblin - Craig-Hallum Capital

Raphi Savitz - RYS Advisors

Raj Sharma - B. Riley Securities

Operator

Good afternoon. Welcome to Aspen Group's Fiscal Year 2021 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 the expansion of the highest LTV programs; revenue estimates and trends; future earnings and cash flow; G&A trends, including our main Phoenix campus and other campuses with initial operating losses at our new campuses; enrollment growth; the impact on bookings; our estimate concerning LTV and ARPU; the impact of the COVID-19 vaccine rollout on future class starts in the fourth quarter; and future accounts receivable estimates. 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 Aspen Group's business is contained in its prospectus supplement in the 10-K filed with the Securities and Exchange Commission and in the press release issued this afternoon. 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, the company will discuss adjusted net income (loss) and adjusted EPS (loss) per share, EBITDA and adjusted 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 and the 10-Q filed by the company today. There will be a transcript of this conference call available for one year at the company's website. Please note that the earnings slides are available on Aspen Group's website, aspu.com, in the Presentations page under Company Info.

Now, I will turn the call over to Michael Mathews, Aspen Group's Chairman and Chief Executive Officer.

Michael Mathews

Good afternoon. Today, we delivered record revenue for the second quarter of \$17.0 million. This record performance beat the top line consensus revenue estimate of \$15.6 million by \$1.4 million or 9% and was an increase of \$4.9 million year-over-year or 40% top line growth.

Achieving a \$17 million revenue quarter in Q2 was a function of three key factors. First, as we reported last month, we achieved record quarterly enrollments at both universities. We had over 2,000 quarterly enrollments for the first time at Aspen University. Additionally, USU delivered 649 enrollments, which was an increase of 65% year-over-year.

Last year, we kept marketing spending relatively flat throughout the 2020 fiscal year, while this year we planned and have executed significant increases in advertising spending in our highest LTV units which are our USU, primarily FNP business, our Aspen BSN Pre-Licensure unit and our Aspen Doctoral unit. So driving record enrollment growth in these three high LTV units was one key factor in the revenue beat.

The second key factor is the revenue growth of our two highest LTV businesses, USU (primarily FNP) and Aspen's BSN Pre-Licensure business, together achieved a key milestone as those two businesses now delivered 50% of the company's revenue in the quarter.

The third key factor of the revenue beat was favorable seasonality. Our second quarter has historically been a strong seasonal quarter for both enrollments and revenue, given students have a 'back-to-school' mentality in the months of August through October. Course starts in the second quarter were stronger than expected across every unit of the company, which we estimate delivered over \$300,000 of incremental revenue for the quarter versus our internal forecast.

The result of this \$17 million quarter, combined with a stronger than planned first quarter performance of \$15.2 million, now implies a full-year revenue total of \$67.7 million or 38% growth, given that consensus revenues in the second-half of the fiscal year is currently \$35.6 million (specifically Q3 consensus is \$16.6 million and Q4 is \$19.0 million).

While the company only provides full-year revenue guidance, we believe it is important to highlight and confirm the typical seasonal effects we will see in the third quarter that are reflected in the third quarter analyst consensus revenue forecast.

Accordingly, we are confirming the existing consensus revenue estimate of \$16.6 million for Q3, given the usual seasonal effects we see in Q3 as it falls during the holiday months. But in addition to the usual seasonal slowdown in Q3, we're also seeing slightly lower course registrations than seasonally expected in our Aspen Nursing + Other unit. And we believe COVID, what we call 'wave 2,' is partly a factor, given that all the states in the country are now affected, not just some of the major metros.

There's no question our predominant student demographic of RNs has been especially overwhelmed over the past few months. So this isn't unexpected. You may recall we saw a similar effect in March and April (Q4) during COVID 'wave 1,' where for a six-week period we saw a slowing of enrollments only to have enrollments bounce back in May and June (Q1). With the rollout of vaccines and as we move through the winter season, we are anticipating the same enrollment and course registration trend and recovery in our fourth quarter.

So in summary, we saw more favorable seasonal enrollments and revenue in Q2 than expected, and we're seeing expected seasonality in Q3 with some additional slowness in course registrations due to short-term COVID effects, which net-net will deliver total revenues for the two quarters in line with our expectations.

Coming back to the advertising spending discussion, this quarter was the step-up in spending we have been planning. Recall that in Q1 we grew our enrollment advisor staff by 23%, from 96 EAs to 118 EAs, adding EAs across every unit of the company, completed in anticipation of this spending increase.

We grew our advertising spend this quarter by approximately \$700,000 sequentially from \$2.5 million to \$3.2 million, with the majority of the increases in spending directed to our three highest LTV units, which is USU (primarily FNP) and Aspen University's BSN Pre-Licensure and Doctoral units.

Three important comments to make about this growth spending. First, given our business plan is to maintain the company's compound annual growth rate (or CAGR) over 30% for the coming years, we cannot continue an essentially flat advertising spend rate as we accomplished last fiscal year.

Second, as you know, there is a lead/lag relationship between marketing spend and revenue growth. While we do not plan on seeing the benefit in the form of revenue in the current quarter, this increased investment will set up the company for strong enrollments and revenue growth in our upcoming Q4 and fiscal 2022.

Third, note that approximately 25% of the \$700,000 sequential advertising increase was directed to our two new pre-licensure metros, Austin and Tampa. As a result, we're making strong progress in generating leads and first year prerequisite student enrollments in both metros.

In summary, even given the \$700,000 sequential advertising spend increase, total marketing as a percentage of revenues only increased to 21%, as compared to our last fiscal year average of 19%.

Jumping to our operating metrics for the quarter. The company's bookings increased 34% year-over-year to \$42.1 million, which delivered a company-wide average revenue per enrollment (or ARPU) of \$15,825, an increase of 12% year-over-year. The company's weighted average cost per enrollment (or CAC) declined 5% on a sequential basis from \$1,203 to \$1,143. Therefore, the marketing efficiency ratio (or MER), representing revenue-per-enrollment over cost-per-enrollment for both of our universities remained above 13X.

Finally, the company's overall active student body grew 24% year-over-year from 10,718 to 13,238, with our nursing active student body growing sequentially by just over 1,000 students to 11,442 or 86% of the company's total active student body.

I'll complete my remarks today by giving an update on our BSN Pre-Licensure business. As everyone is aware, our Phoenix metro campuses have grown very rapidly over the past three years. As of the end of the second quarter, we had nearly 500 students in our final two-year core program which drives revenues of approximately \$20,000 per year, per student in those final two years compared to

\$7,000 per year, per student in year one of the program. In addition, we currently have enrolled approximately 1,800 first year prerequisite students in the Phoenix metro. In order to ensure these students have very short wait times to begin in their core program, we will be moving to double cohorts in our main Phoenix campus by the airport starting this coming February.

So rather than starting 30 students into the core program each semester (as a reminder, we have six semester starts per annum), we will increase that capacity by approximately 50% to a total of approximately 45 students each semester start. This will increase our annual revenue run rate at our main Phoenix campus by approximately \$1.8 million starting in our fiscal fourth quarter.

As a reminder, in Q1, our EBITDA margin for our Phoenix Pre-Licensure business was 37%, and as Frank will walk you through momentarily, in the second quarter that EBITDA margin increased into the 40's percentile, so this incremental revenue is projected to cause that margin to increase further in the coming quarters. In fact, it's no longer out of the realm of possibility that our Phoenix Pre-Licensure business could ultimately reach a 50% EBITDA margin.

Another way we look at this; with this incremental \$1.8 million of annualized revenues in our Phoenix Pre-Licensure metro at a margin in the 40's, that incremental margin will nearly overcome the projected aggregate first year operating losses of our two new metros we recently launched in Austin and Tampa.

Finally, I've been receiving a number of inquiries on our pre-licensure expansion plan for calendar year 2021. We're planning to announce our next pre-licensure metro toward the end of the fiscal year once we receive all regulatory approvals. We're very far along with this next metro and decided for competitive reasons to hold back on announcing until we're about to begin marketing in the spring.

On the corporate front, Frank has been heading up the build-out of a corporate service center in our new Tampa location. This service center brings together many of the functions that support the internal operations of the company, namely accounting and accounts payable, human resources, payroll and treasury functions, and allows for improved operational synergies and cost savings.

Over the last year, we have moved a number of these positions from New York to Tampa in an effort to take advantage of the lower cost and have recruited very successfully in the Tampa area. Frank will be relocating to Tampa to work day-to-day with this group and to continue its progress. Finally, you may see some small stock sales in the coming weeks by Frank, and these will be to facilitate his move to Tampa.

That completes my remarks. Now I'll turn the call over to Frank to review our financial results for Q2.

Frank Cotroneo

Thank you Mike, and good afternoon everyone. I'll begin by reviewing our financial results for the 2021 fiscal second quarter, providing input on our financial progress, including some commentary on the unique non-cash financial events which transpired during the quarter.

To begin, as Mike indicated, revenue in the second quarter increased \$4.9 million or 40% over the prior year to a record \$17.0 million. Revenue increased \$1.8 million or 12% over the prior quarter. The second quarter is typically a seasonally strong quarter for Aspen Group, and this was no exception.

Year-to-date, we have seen consistent momentum in our enrollment. One of the major drivers of this demand is the tailwind caused by the 1 million nurse shortage in our economy combined with a deficit of available seats and nursing school programs across the country. We see no evidence that this need for nurses will abate.

Additionally, in Q1 and Q2 of this fiscal year, we felt enrollment tailwinds that have been augmented by the impact of COVID. In particular, two population groups; first, young adults who have lost jobs in the service industry and are now looking at a new career in nursing and come to Aspen for a pre-licensure BSN degree; second, for nurses working on the front lines of the pandemic, an increasing number of these nurses are now looking to attain a family nurse practitioner degree and work in more controlled and higher-paying private clinics. As a result, these two degree programs continue to be two of our fastest-growing programs. They are also our two highest LTV programs.

As Mike mentioned, combined revenues from USU, which is primarily our family nurse practitioner program and our Aspen University BSN Pre-Licensure program, accounted for 50% of total company revenue in the quarter. Aspen's Nursing + Other and Doctoral units accounted for the remaining 50% of revenue for the quarter.

Given the strong demand backdrop, our effective marketing campaigns and increasing enrollment from our two new campuses, we expect revenue from these two businesses to increase to over 50% of total company revenue in the second half of this fiscal year and continue to grow as a percentage of total company revenue in the coming years. This growth strategy of focusing investment resources into these two businesses while maintaining a steady flow of students into the other core Aspen programs will, over time, deliver stronger growth in revenue and provide gross margin expansion.

With our stated goal of opening two new pre-licensure BSN campuses every year over the next 5 years and the intention to embed FNP immersions in select metros, these programs are the principal drivers of our long-term growth. The success of these two programs will place Aspen on a trajectory to achieve higher revenue, earnings and sustainable free cash flow in the future.

Aspen Group's gross profit in Q2 increased to \$9.3 million from \$7.6 million a year ago. The gross margin reduction from 63% to 55% was a strategic decision to invest in marketing and build an even stronger pipeline of students across our highest LTV programs and to begin marketing spending to support our two new campuses in the Austin and Tampa markets.

Marketing spend, which increased year-over-year by \$1.6 million this quarter was 21% of revenue, up from 17% in the year ago quarter and 18% in the prior sequential quarter. As Mike mentioned, that increase was predominantly due to the sequential advertising spend increase of \$700,000. The efficiency of our advertising spend is and will continue to be a primary factor in delivering gross margin expansion over the long run. It should be highlighted that advertising spending represents approximately 95% of total marketing spend.

We continue to be able to source students in our highest LTV programs below the cost to acquire a student in our traditional Aspen Nursing + Other business. This creates significant leverage as these higher LTV programs grow as a percentage of total revenue, especially when you consider the lifetime value of a family nurse practitioner student is 2.6 times higher, and the LTV of a pre-licensure student is 4.3 times higher than that of a traditional Aspen online Nursing + Other student with an LTV of \$7,350 per student.

As I stated earlier, we expect our two highest LTV businesses, USU, which is primarily the family nurse practitioner business, and pre-licensure to increase beyond the 50% level of total company

revenue in the coming quarters. As a result, we anticipate achieving gross margin levels above historical levels as our new campuses mature and revenue and profitability from these programs continue to grow. Aspen University marketing costs was 20% of Aspen University revenues for the second quarter of 2021 versus 16% for Q2 last year, while USU marketing costs equaled 18% of USU's revenues for second quarter 2021 versus 11% in Q2 last year.

Total cost of revenue, excluding depreciation and amortization, increased from 35% to 43% due to the increased marketing spend, which I just spoke about. Instructional costs increased from \$2.2 million or 18% of revenue to \$3.7 million or 22% of revenue. The increase in instructional costs is due to the hiring of new full-time and adjunct faculty to support enrollment increases across both universities, and faculty and campus leadership for our new pre-licensure campuses in Austin and Tampa. Aspen University's and instructional costs represented 20% of Aspen University's revenue for the quarter while USU's instructional costs and services equaled 26% of USU's revenue for the quarter.

For consolidated Aspen Group second quarter, G&A was \$11.3 million, an increase of \$4.1 million over the prior year. For the quarter, this represented 66% of revenue compared to 60% in the prior year second quarter.

The first and primary reason for this increase was \$1.2 million of accelerated stock-based compensation from the vesting of two tranches of performance-based equity grants in the second quarter. On our first quarter earnings conference call, I provided detail on AGI's four-year performance-based bonus program. The plan is structured to align leadership's performance with the interest of shareholders, which is to drive sustainable shareholder value. The plan calls for the vesting of restricted shares at price target thresholds when AGI's common stock trades at or above specific price thresholds for 20 consecutive trading days. As a reminder, the total grant was 375,000 shares. Vesting is set accordingly; 10% at \$9, 25% at \$10, and the remaining 65% vests when the stock trades at or above \$12 for 20 consecutive trading days. Two of these vesting thresholds were achieved in the second quarter. On August 31st, the \$9 or 10% tranche vested at \$12.78. And on September 2nd, the \$10 or 25% tranche vested at \$12.99. The total non-cash stock-based compensation expense reported in the second quarter, again, is \$1.2 million.

The second element of G&A growth was what we call 'growth opex.' Growth opex represents our investment in key infrastructure projects to support our expansion strategy. In this quarter, our growth opex investment of approximately \$0.25 million is specifically defined as personnel and related costs to expand our enrollment center, Academic and Financial Aid Advisors and clinical operations personnel. In our enrollment center, specifically, we decided to grow our EA staff from 96 EAs to 118 EAs, adding Enrollment Advisors across every unit of the company. We are now fully staffed for the fiscal year to accomplish our enrollment goals for the remainder of the fiscal year.

This growth spending typically happens in the first half of the fiscal year and is done in conjunction with our increased marketing spend to drive and support the increasing enrollment activity across both universities. This investment in marketing, enrollment staff and other supporting roles will strengthen our student pipeline for enrollments, which will lead to higher course registrations and revenue at the back end of this year and into our next fiscal year.

Lastly, the third reason for the increase in G&A, we began investing in our new campuses in Austin, Texas and Tampa, Florida. This new campus opex investment of approximately \$0.25 million came in the form of faculty and campus leadership positions and operations personnel to launch and support these new markets.

In the second quarter, after removing the accelerated stock-based compensation expense and these growth investments, our recurring G&A for the consolidated company was \$9.6 million. This represents an increase of \$2.4 million versus the revenue growth of \$4.9 million in the year-over-year quarter, which is in line with our target to grow recurring G&A expense at or below 50% of revenue growth.

This quarter's interest expense reflects the acceleration of the original issuance discount on the \$10 million of convertible notes. This \$1.4 million charge is a non-cash expense. On September 14, 2020, we announced the \$10 million of secured convertible notes issued by the company on January 22, 2020, had achieved a conversion stock price threshold of \$10.73 per share and converted into 1.4 million shares of common stock. As a result, Aspen Group removed the debt and associated annual interest expense of \$700,000 from the P&L. Following this debt conversion, Aspen Group is now debt-free.

Net loss applicable to shareholders was approximately \$(4.4) million compared to \$(600,000) a year ago. This increase in net loss of \$3.8 million includes \$2.6 million of unique non-cash items previously discussed, namely the \$1.2 million non-cash charge related to the RSU vesting and the \$1.4 million charge related to the conversion of \$10 million of convertible notes. Without these two items, the net loss increase would have been approximately \$1.2 million. This \$1.2 million increase in net loss year-over-year is a result of the investments in marketing, about \$800,000, including \$300,000 for new campuses, growth opex of about \$240,000 and new campus G&A costs of about \$200,000 discussed earlier.

From a university perspective, Aspen University generated \$2.2 million of net income for Q2 2021 and USU generated \$0.6 million of net income in Q2 2021. AGI corporate incurred a net loss of \$(7.1) million, of which 36% or \$2.6 million was the two non-cash expense items previously discussed. The net loss per share reported for the current quarter is \$(0.19), as compared to a net loss of \$(0.03) per share for the comparable year ago period.

In our previous earnings call, we introduced two new non-GAAP measures; Adjusted net income (loss) and adjusted earnings per share. Adjusted net loss for the second quarter was \$(1.2) million as compared to \$(0.1) million in the prior year period. Adjusted loss per share for the second quarter was \$(0.05) compared to adjusted loss per share of \$(0.01) in the prior year period. These increased losses reflect our growth investments previously discussed.

EBITDA was \$(2.3) million or (13)% margin as compared to EBITDA of \$0.5 million or 4% margin in Q2 2020. Adjusted EBITDA was \$0.2 million or 1% margin as compared to an adjusted EBITDA of \$1.4 million or 11% margin in Q2 2020.

AGI corporate generated an EBITDA of \$(5.6) million and adjusted EBITDA of (\$3.9) million in the second quarter of fiscal year 2021. Aspen University generated EBITDA of \$2.7 million or 23% margin and adjusted EBITDA of \$3.4 million or 28% margin for Q2 2021. Note that Aspen's consolidated pre-licensure BSN business accounted for \$1.1 million of the \$2.7 million EBITDA, including the new start-up campuses. That business consequently operated at an EBITDA margin of 31%, which remains the highest margin unit of the company, even given the pre-revenue operating expenses of the new campuses. As Mike mentioned earlier, if you exclude the new campus expenses, the Phoenix Pre-Licensure operation would have an EBITDA margin in the 40's. And that operation has potential for the margin to rise further next fiscal year, once we begin double cohorts in February, as discussed earlier.

USU generated EBITDA of \$0.6 million or 12% margin and \$0.7 million of adjusted EBITDA or 14% margin for the second quarter 2021.

Before I switch to the balance sheet, I'd like to discuss the introduction of a new metric, 'same-store sales.' We feel that this metric will allow us to demonstrate the performance of the steady state business with and without the effect of the new campuses as they evolve from start-up to breakeven to standalone economic units and the investments necessary to get them there. We will use this metric in future quarters as we execute our long-term growth strategy to open 10 new campuses throughout the Southern United States in the next 5 years. Using this same-store sales concept in the second quarter, the start-up campuses represented an EPS loss of \$(0.02). Without these investments, consolidated EPS would have been \$(0.17) loss instead of the \$(0.19) loss reported and \$(0.03) loss of adjusted EPS instead of \$(0.05) loss reported.

Turning to the balance sheet. Aspen Group ended the quarter with approximately \$12.2 million in cash and cash equivalents and \$4.6 million in restricted cash. Included in this restricted cash is \$3 million of unearned revenue that will be earned in the coming 2 months. This is compared to \$14.4 million in cash and cash equivalents and \$3.6 million in restricted cash of which \$2.1 million was unearned revenue at year-end fiscal 2020. The company used cash of \$(1.4) million in operations in the second quarter of fiscal year 2021 as compared to using \$(0.3) million in the same period last year.

Regarding accounts receivable and our allowance for doubtful accounts, we continue to evaluate our student accounts and our allowance for doubtful accounts in the context of our increase in revenue growth and our change in the mix of our business. This quarter we added \$632,000 to our allowance, which included \$232,000 of allowance replacement for write-offs of the receivable balance. We will continue to adjust our allowance in line with revenue growth and expected improvements in student payment performance.

Regarding our share count, we started the quarter with 22,361,000 basic shares outstanding. As a result of the conversion of the \$10 million convertible notes into 1.4 million shares, as well as employee exercises of stock options, we ended the quarter with 24,416,000 basic shares outstanding.

Finally, I want to remind shareholders that there is one remaining tranche of the RSU performance grant that could vest over the next 3 years. If and when Aspen's stock price maintains 20 consecutive trading days at or above the final vesting threshold of \$12, the company will record the remainder of any unamortized stock-based compensation remaining at the vesting date as a non-cash expense in that quarter. As seen in this quarter, this expense, while it has a material impact on our reported net earnings loss and EBITDA numbers in the quarter, it is a non-cash item and will not negatively impact our ongoing operating performance.

This concludes my prepared remarks. I will now turn the call back to the operator for questions. Thank you all for joining us today. Stay safe and happy holidays.

Question-and-Answer Session

Operator

Thank you. Our first question comes from Darren Aftahi with ROTH Capital Partners. Please go ahead.

Darren Aftahi

Hey guys, congratulations on the quarter. Hope you're doing well. Just a couple, if I may. With the potential of the double cohorts, I'm just kind of curious, I know it's early with both Tampa and Austin, but is there any reason those schools over time wouldn't mirror the P&L of your Phoenix campus? And then if that's the case, is there any thought about accelerating the growth in the BSN program going forward?

Michael Mathews

Yes. Good afternoon, Darren, it's Mike Mathews. How are you?

Darren Aftahi

Hi, Mike, good.

Michael Mathews

You broke up a little bit in the early part of your question, but I think I have an understanding of what you're asking. So one thing to be aware of is that the Phoenix metro is kind of a perfect world scenario for us for a number of reasons. One, we have two campuses rather than one in the metro. And second, we have this amazing relationship with HonorHealth where not only are there long wait lists in the Phoenix metro at the public institutions where the nursing schools are full, but also HonorHealth sent us a number of their employees that enrolled very early on.

So I don't expect our new metros to be homeruns, which is what I would describe the Phoenix operation. But what I would say to you is that there's no reason why our Austin operation, for example, once we move to six semesters per year (at this point, the TX Board of Nursing guided us to four semesters per year currently), but once those campuses, both in Austin as well as in Tampa reach maturity, I don't see any reason why, worst case, the margin would be in the mid to upper 30's and perhaps into the 40's.

Darren Aftahi

Great. That's helpful. And then just as we look at the CAC on both of your businesses, where do you feel like steady state Aspen and kind of USU CAC kind of shakes out at this point? Or is it still too early?

Michael Mathews

No. I think we have enough years of experience now that we're pretty confident that USU is going to remain in that kind of \$1,300 range, give or take \$100 each way. So the range is probably \$1,200 to \$1,400, and we feel like that will be a pretty consistent range. And Aspen University, of course, as you know, it's now a weighted average of each of our three units. So you've got Aspen Nursing + Other, which is our original traditional online business. And then you've got our Aspen Doctoral business and then, of course, our Pre-Licensure campus business. So when you put together each of those weighted averages, it has been under \$1,200, and I don't see any reason why we can't continue in that same range.

Darren Aftahi

Great. Thanks, guys. Congrats again.

Operator

Thank you. Our next question will come from Mike Grondahl with Northland Securities. Please go ahead.

Mike Grondahl

Yes, thanks Mike and Frank. The incremental marketing in Tampa and Austin, sort of what medians were you using for the marketing? And how do you think it was efficient or successful? How are you kind of measuring that early on?

Michael Mathews

Good afternoon, Mike. This is Mike Mathews. We are using the same exact advertising and marketing methodology in Austin and Tampa as we use in Phoenix. So there's really -- it's a compilation of three different marketing strategies. Actually, I would say, four. We have a corporate sales force. So we have an outside salesperson that's in each of our major metros. That person calls on prospective community colleges, high schools, as well as clinical partners. So that's the first.

The second is traditional Internet advertising that we've done in all of our original programs. The third is social media that works really well for us. And then as I've said publicly before, we augment those three channels with radio -- traditional radio. So that's our marketing strategy, and it's going quite successfully in Austin and Tampa. While it's not as successful as Phoenix was in its first couple of months, it's not far behind. We're seeing good demand in both locations.

Mike Grondahl

Got it. And then when you talked about sort of the newer locations, and we might find out about them in the spring, were you implying there might only be one location? Or can we still kind of think about that as being two different Southern cities?

Michael Mathews

Yes. We were just talking about the next campus, which is designed to start -- we're planning to start marketing in the spring. We still have an intent to do two campuses per annum, two new metros per annum, and we'll announce that second campus next calendar year sometime in the summer or fall. So it's two per year, no change.

Mike Grondahl

Yes, that's what I thought. I just wanted to be sure. Okay. Thank you.

Michael Mathews

Thanks, Mike.

Operator

Thank you. Our next question will come from Eric Martinuzzi with Lake Street. Please go ahead.

Eric Martinuzzi

Yes. I just wanted to clarify the top line outlook for Q3 and Q4. Do I have this correct that Q3 would be the \$16.6 million and Q4 was \$19.0 million, totaling out to a full-year FY 2021 at \$67.7?

Michael Mathews

Good afternoon, Eric, it's Mike. Yes, we're just reiterating that the current consensus estimates for revenue in the second-half of the year, we're going to maintain those numbers at this point, yes.

Eric Martinuzzi

Okay. And obviously, we amped up the spend here on the marketing -- on the enrollment advisors and on the marketing. You talked -- and I know it's not guidance, but you talked about to keep this thing going at 30% CAGR, we've got to invest in marketing and we've already invested in the enrollment advisors.

Just in broad strokes, if we are able to drive an incremental \$20 million on the top line, is the assumption then that that would bring along an incremental 50% EBITDA conversion, so that we could see incremental \$20 million of revs equals an incremental \$10 million of adjusted EBITDA?

Michael Mathews

Yes, Eric, what I would say is that, again, we don't provide guidance as a company. So I prefer not to get specific about exactly what the leverage would be. But in future fiscal years, we do expect our EBITDA margin to grow into the double digits. And so I will say that recently, up until now of course, EBITDA has been hovering in the positive range and this quarter, of course, we went negative, but we expect things to in the second-half of the year to improve, particularly in Q4.

Eric Martinuzzi

Got it. Well, congratulations on the second quarter -- that 40% revenue growth is terrific.

Michael Mathews

Thank you, Eric.

Operator

Thank you. Our next question will come from Austin Moldow with Canaccord.

Austin Moldow

Given the change of administration, can you give us your thoughts on how you expect the regulatory landscape to change? And sort of secondarily, can you share where you are currently on that 90/10 rule, particularly as you expand your BSN business?

Michael Mathews

Good afternoon, Austin, it's Mike Mathews. Yes. So I'll take the last question first. In terms of where we stand on the 90/10 rule, we filed our fiscal year 2020 government audit at the end of October. And both universities were in the low 30's percentile in terms of the percent of FA revenue over the total revenue. So we're very much a far cry from our for-profit brethren who sit in the 80% plus range. And our monthly payment plan, because it's such a predominant payment method at both schools, we always expect to be in that sort of 50% or less range.

Now from a governmental perspective, once Biden takes office, we have every expectation that the Department of Education will behave similarly as the Obama administration did. And they put in, from my point of view, some very good regulations, the gainful employment regulation, for example. I always felt that it was a good regulation, it makes sense. We and the for-profit sector, though, felt like the gainful employment rules should apply to every college and university, not just for-profit. So, from our perspective, because 86% of our students are registered nurses and essentially just about in every nook and cranny of our great country, if you would like to be gainfully employed in the nursing profession, you may do so because of the shortage. So we would never have any concerns about passing the gainful employment regulations should they be reinstated.

Austin Moldow

And lastly, can you just give us a quick update on, I think, as you put it phase 2 of your CRM buildout?

Michael Mathews

Yes. I mean, I'm not really prepared to talk a lot about that right now. We are working on the system. When that, and for those of you that haven't been tracking the company carefully, phase 2 of our CRM system is designed to essentially play offense with our student body, which would be the first universities in history to do so. And the whole concept of that is it's a retention tool, it's a retention system that basically looks for potential negative events that could happen in a student's career. And if we see one of those events occur, then our academic advisors will contact the student proactively or playing offense as I call it, in order to ensure that student is able to overcome whatever that issue might be. So that system should be ready over the next year to 1.5 years. And once that system is in place, I would humbly tell you that it will be far and away the most sophisticated CRM system in this industry's history.

Operator

Our next question will come from Jeremy Hamblin with Craig-Hallum Capital.

Jeremy Hamblin

I wanted to ask about the investment in marketing and instructional costs here in the second half of your fiscal year. Obviously, appropriate to make the investments you have in opening the new campuses. You're going to have an additional campus open in the first half of calendar '21, I believe. I wanted to just get a sense of what we can expect on your marketing or what are your targets on marketing and promotional spend here in the back half of the year, if you're kind of at 21% in Q2? And I imagine that your instructional costs will probably stay in that 20% range, but just looking for some confirmation on that.

Michael Mathews

Good afternoon, Jeremy, it's Mike Mathews. That's a great question. I'm really glad you asked. So let me just say that over the last several years, other than last year, we kept our spending -- our marketing spending flat essentially for the year. Every year, we typically select a certain quarter and it's usually early in the fiscal year where we grow our enrollment center and then prepare for a growth spurt from a marketing spending perspective. And as I guided everyone last quarter, we pretty much completed the increase of our enrollment center during Q1, and then we had a few more people trickle in during Q2. So this was the quarter that we had that sort of big spending jump.

What we've done in past years and what we plan to do this year is to now sort of flatten out the spend rate for the second half of the year. We're not going to grow the spend rate in the Q3 and Q4 by any more than say 10% from where we are. And the beauty of doing that is so that we can basically allow the revenues to catch up to that growth spend that we invest. And so by the time we get to Q4, as we've done in previous fiscal years, we should -- I said to Mr. Cooperman a quarter ago -- that I'm very hopeful that we'll be in sort of that breakeven range as a company in Q4, and I just want to say that we remain hopeful that our result in Q4 will be similar to Q1, which on an adjusted EPS basis is approximately breakeven. So you'll see a significant improvement in all of our operating metrics and our bottom-line metrics as we deliver our fourth quarter results.

Jeremy Hamblin

Great. That's helpful color. I wanted to also just come back to the question, I think, around ARPU. And as we think about what you can achieve kind of total company in the Aspen University side of your business, you've now gotten up into the \$15,000 - \$16,000 range, is that fair to assume that that even could drift up a little bit further here as your pre-licensure portion of your business becomes a greater portion?

Michael Mathews

Yes. you're absolutely thinking about that the right way. The vast majority of our spending increase, as I mentioned during the earnings remarks, is in our three high LTV units. You've got USU, which is the primarily FNP business. You've got the pre-licensure business at Aspen. And of course, you have the doctoral business at Aspen, which is growing very nicely as well. All those businesses are 2, 3, 4 times higher LTV than our traditional Aspen Nursing + Other unit. So as a result of the majority of our enrollments continue to flow into these three highest LTV businesses, yes, mathematically, yes, no question, our ARPU will continue to trickle up, yes.

Jeremy Hamblin

Okay. And then on a separate note, you had a fairly large competitor, private company, announce that they've been acquired by a public company. And it looks to me like they've made some changes in their pricing model almost right away in terms of potentially maybe even in response to your entry into the Florida marketplace, where they have several campuses. But wanted to just get a sense for what you're seeing in the competitive set there? How that compares to Phoenix or Austin as it looks to be maybe a little bit more crowded space. Any color that you could provide on that?

Michael Mathews

Yes. I mean what I would say to you is that every market that we enter is going to have a completely different sort of competitive environment, right? So in Phoenix, that metro is arguably the most competitive metro in the United States for nursing schools. And I think we've proved pretty clearly that our business model will work in an incredibly competitive environment. Austin, Texas is a very different kind of a metro. There are almost no private competitors. You have the publics there as well, but one of the reasons why Baylor Scott & White recommended we launch in Austin when we came into the state of Texas is because there just isn't much competition there. So we have a really nice advantage in Austin of it not being terribly competitive.

As you described, in the Tampa market and a number of the major metros in Florida, there is much more competition, private competition, than Austin for example. But I don't consider Tampa to be more competitive than Phoenix. It's just not. And yes, the school that you mentioned -- Rasmussen

College, they're a good school, good nursing school, and they're a good competitor of ours, and I wish them luck.

Operator

Our next question will come from Raphi Savitz with RYS Advisors.

Raphi Savitz

Mike, congrats on another great quarter. Can you remind us as you launch these new pre-licensure campuses, what is your affiliation with the local hospitals? And then maybe dive a little bit deeper on the overall cost to launch a new campus and how you think about the time to pay that back?

Michael Mathews

Yes, so just from a financial point of view, I'll answer your last question first. We expect a new metro to basically take at least a year, perhaps 1.5 years for it to breakeven on an operating basis. And in Phoenix, we broke even after 12 months, and we only burned about \$0.5 million on an operating basis. That's probably best case scenario. So I would say that these new markets, call it, \$500K - \$750K in that range in terms of the loss, and it's probably between 12 to 18 months would be my best guess. And sorry, what was your first question again? I apologize, Raphi.

Raphi Savitz

Yes, just -- I guess just the affiliation with the hospitals, how that relationship works? And is that a model that you intend to take into all your future markets?

Michael Mathews

Yes, sorry about that. Okay. Yes. So every market is a little different. We're not going to enter a market unless we have a very strong and tight relationship with whomever is the largest, most sophisticated healthcare institution in that market. And we've been able to accomplish that in each of the three metros that we've gone into to date. And there are some states that have consortiums that we work with as well, where some of the healthcare institutions kind of band together to determine what the number of placements that they're able to accommodate on a per quarter or per year basis. So those are the two aspects of what we manage in order to ensure that we have proper placements as we move into each new metro.

Raphi Savitz

And when you say placement, is that a job afterwards? Or is that potentially a training kind of during the program?

Michael Mathews

No, that's the training. Those are the clinical rotations that our students take during their final 2-year core program out in the field.

Raphi Savitz

Got it. Okay. And then I guess going to the USU business, what is the capacity there at USU? And more broadly, what's the opportunity in the nurse practitioner market?

Michael Mathews

Well, the capacity for us is not really -- it's really unlimited for us because there's enough Internet advertising impressions for us to be able to generate leads from. So we're not concerned about that from a web publisher perspective. But what I would say to you is that whenever you get into a clinical program, whether it's a pre-licensure program at Aspen or the FNP program at USU, it requires a tremendous amount of operational planning and sophistication. And so for us to continue to grow that business, we have to do a number of things quite well. We obviously have to hire the faculty necessary. We have to have the clinical space available for weekend immersions, which we're moving to multiple campuses in order to accomplish that. And yes -- and we have to have an office of field experience that basically finds clinical rotation locations for each of our students.

So running the clinical program is a very sophisticated effort. And so far, we're doing it quite well. But that would be -- that would sort of be a little bit of a limitation in terms of how quickly we can grow is just making sure that we manage the growth from an operating perspective.

Raphi Savitz

Got it. And if I could ask just one more. When you started talking about the new CRM you're building, you had referenced, really, the goal was to improve retention rates in your business. Can you talk a little bit about that? Is that a challenge that you're currently facing in the business?

Michael Mathews

Raphi, I would say that every college in this country now has some type of an online representation to their student body. And so the challenge you have whenever you have a student that is a fully online student, is real-time data on how that student is doing. And when they're online, you don't see them. You're not in-person. There's no guidance counselor to go into, right? So there's a number of factors that make a success or failure of an online student.

There's academic progress, the relationship they have with faculty members. There's time management issues, there's potentially job-related issues that a person might have. There's so many things that go into success in a college situation if it's fully online. And if you have an EdTech infrastructure that's designed to pull in all these different types of data and be able to then have an algorithm that in real-time tells an advisor, hey, this is going on, contact this person and work with him or her, it could increase our retention rates very materially.

So yes, imagine if you're a big for-profit school, today, we're pretty large, we're in the 13,000 range. But imagine a school that has 80,000 students online or imagine all these OPMs, online program managers, that are managing online programs across all the non-profits, this system would be interesting to any of these institutions or companies across the sector.

Raphi Savitz

Absolutely. It sounds like you're bringing kind of best-of-breed e-com tools to the education market?

Michael Mathews

Yes, Raphi, what I would say to you is that we're the first higher education company in history to essentially build a vertically integrated EdTech infrastructure. It just -- it hasn't existed. And that was our vision from the beginning, and it's coming to fruition. And I'm so proud of all the people in our

company that have helped shepherd us to where we are, and we're excited to ultimately finish that system, and it's not far off.

Operator

Our next question will come from Raj Sharma with B. Riley Securities.

Raj Sharma

I wanted to ask you on the Phoenix double cohorts. Could you explain that a little bit? How -- why do this now? And how do you expect to impact -- so you have a certain laid out guidance for the second half of the year, how does that impact that guidance? And can you just explain the economics a little again?

Michael Mathews

Yes, good afternoon, Raj. So the way our Phoenix operations works, of course, we have two campuses -- our first inaugural campus by the airport in Phoenix -- and then we have our HonorHealth campus on the North side of Scottsdale. At both of these locations we implement 6 semester starts per annum. There's 3 day semester starts, and there's 3 evening/weekend semester starts. So for the first 3 years of our operation in our inaugural campus by the airport (what we call our Elwood campus), we have had approximately 30 students start each semester in the final 2 year core program.

Now everyone needs to understand that nursing schools, all nursing schools, essentially it's a 2 phase effort, okay? So the phase 1 is your first year, you have to complete all the prerequisite courses first. And for us, it's 41 credits, and it's all online, and it's about \$7,000 to complete those credits. Once the student completes that first year, the 41 prerequisite credits, they then have to pass the HESI A2 entrance exam in order to matriculate into our final 2-year core program. So what we've been doing is we've been basically enrolling around 30 students into our final 2-year core program every semester, 6 semesters per annum, both at Elwood as well as our HonorHealth campus.

What we just announced last hour is that we're planning to have a double cohort in our inaugural campus, our Elwood campus. So rather than 30 students that start each semester, we're going to have 45 students that start each semester. So we're going to grow the number of students that start the core program in our Elwood facility by 50%. And then the math on that basically is about \$1.8 million of annualized revenue run rate by doing so. Does that answer the question?

Raj Sharma

Yes. So does that doesn't start to impact, obviously, until these new cohorts start to graduate and finish up, right? But does that -- you talked about the campus doing \$12 million in revenues with close to 40%, 50% EBITDA margins. Does that change that profile?

Michael Mathews

So, no. So whenever we've basically provided top-line guidance in our pre-licensure business, we've always assumed that in order to hit a \$15 million revenue run rate that we would move to a double cohort to get there. So this is exactly -- we're implementing this exactly how we had originally planned it. We just wanted everyone in the public to know that we're moving into our final stage of maturation in our first campus by moving to double cohorts to get to that \$15 million number in the coming couple of years.

Raj Sharma

Got it. And then my other question was around the cost of acquisition, the CAC. Are you seeing any different CAC costs in Austin and Tampa than you saw in Phoenix?

Michael Mathews

It's a little early to say. Right now, the CAC is pretty similar in Austin than it was in Phoenix, and Tampa, so far is a little bit higher. But we just started Tampa, Tampa was last out of the 2 new launches. And so it's a little early to say, but it looks to me like Phoenix will be the lowest CAC followed by Austin, followed by Tampa thus far.

Raj Sharma

And then my last question, Michael, is, again, on sort of the bigger philosophical question is the growth versus profitability. Has that changed at all in the last few quarters? Could you kind of touch upon that, you're getting excellent growth and you look to have profitability by the end of the fiscal year? Is that still -- how do you -- how are you viewing that?

Michael Mathews

Yes, as I said earlier, we're hopeful to be in that sort of breakeven range, plus or minus a couple of cents in Q4 on an adjusted EPS basis. And from our point of view, we want to keep a CAGR that's in the 30's, in a perfect world it'd be 35 to 40, like it is now. And we feel like the gross margins of these high LTV businesses are going to drive -- going to naturally drive us -- to profitability and to positive cash flow. And as you can see, even though we did this huge marketing jump in spend rate, \$700,000 sequentially, we still only had a cash burn of like \$1.4 million on an operating basis. So we're just -- we're trying to manage high-growth and try and keep that cash burn as quiet as we can as we grow.

Raj Sharma

Yes, I'm just trying to get a sense on the growth -- of course, we love the growth. And we also understand that given the way your business is structured, it seems to be on a path to profitability. So I'm not necessarily worried about that, but you have a lot more control on that -- seems to have a lot more control on the ability to show the growth and also have a profitable business model.

Michael Mathews

Yes, we do. We have proven for, I think, a number of years that we're pretty intelligent about when we make a big spending increase and then we try to flatten out over the subsequent couple of quarters in order to let the revenue catch up. And that so far has allowed us to maintain the growth rate that we're looking for and move down the path of naturally becoming cash flow positive, which is, in our view, an inevitability.

Operator

I'm showing no further questions in the queue at this time. I would now like to turn the call back over to management for any closing remarks.

Michael Mathews

Thanks everyone for joining us today. We're looking forward to chatting with you in our next earnings call in mid-March. Good afternoon.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.