

Aspen Group, Inc. (NASDAQ: ASPU) Second Quarter Fiscal 2022 Earnings Conference Call

December 14, 2021, 4:30 pm ET

Company Participants

Michael Mathews – Chairman and Chief Executive Officer

Matt LaVay – Chief Financial Officer

Conference Call Participants

Darren Aftahi - ROTH Capital Partners

Eric Martinuzzi - Lake Street Capital Markets

Jeremy Hamblin - Craig-Hallum Capital

Austin Moldow – Canaccord Genuity

Raj Sharma - B. Riley Securities

Mike Grondahl - Northland Securities

Operator

Thank you for standing by, and welcome to Aspen Group's Fiscal Year 2022 Second Quarter Earnings Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. Please be advise that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Robert Alessi. Please go ahead.

Robert Alessi

Good afternoon. Welcome to Aspen Group's Fiscal Year 2022 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 statements include the continuing impact of COVID-19 on our operations and future growth, anticipated future revenue from our pre-licensure campuses, the timing for opening our next Tier 1 campuses, net income from our five operating campuses, the timing for new campuses to achieve break even, our campus growth by 2025, our future growth and growth strategy, the percentage of revenue from our campuses and USU, Bookings and LTV, projected fiscal 2022 advertising spend, changes in our gross margins, fiscal 2022 EBITDA, our fiscal 2022 guidance and our liquidity.

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 filings with the Securities and Exchange Commission, including the Form 10-K for the fiscal year ended April 30, 2021,

Form 10-Q for the quarter ended October 31, 2021, and in the earnings 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 this conference call, the Company will discuss 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 earnings release issued by the Company today. Please note that the earnings release is available on Aspen Group's website, aspu.com, on the IR Calendar page under News / Events.

There will be a transcript of this conference call available for one year on the Company's website. Please note that the earnings slides are available on Aspen Group's website, aspu.com, on 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 and thank you for joining our call today.

In the second quarter, our Aspen 2.0 strategy once again delivered growth on a year-over-year basis in our high-LTV degree programs, which increased to 54% of total revenue due to the solid revenue growth from our BSN Pre-Licensure and MSN-Family Nurse Practitioner, or "FNP" degree programs. Cost management and the intended impact of our Aspen 2.0 strategy helped reduce cost and lower our net loss by 35% year-over-year.

Our year-over-year revenue growth rate slowed to 12% this quarter as compared to the previous quarter's growth rate of 28%. The second quarter is typically a seasonally favorable quarter given it falls during the fall 'back to school' months, but this year in the second quarter we felt a strong COVID effect among our predominantly RN student body and the result was a decline of nearly \$500,000 sequentially.

As I mentioned on the first quarter earnings call, last summer's increase in COVID hospitalizations caused a slowdown in class starts. Starting in the month of June, among our licensed registered nursing student body at Aspen University, working nurses were needed on the front lines for patient care and frankly showed clear signs of fatigue.

This trend was seen across the entire nursing school sector. RNs represented 69% of our total active student body at the end of the second quarter of fiscal year 2022 and represent our student population primarily impacted by the COVID-19 pandemic trends.

The outcome, similar to the rest of the nursing school industry, was a decline in Aspen University's Post-Licensure RN class starts that began in the first quarter of fiscal 2022 and continued throughout the second quarter. In addition, FNP new student enrollments at USU, which is entirely comprised of RNs, saw a modest decline sequentially in the second quarter, after strong sequential enrollment growth in the first quarter.

Despite these headwinds, we saw a sequential pick-up in BSN Pre-Licensure enrollments in the second quarter and have recently begun to see modest improvements in class starts from RNs starting in the month of November.

Diving into the specifics on our sequential enrollment growth in the second quarter, new student enrollments reflect the success of the Aspen 2.0 strategy to align our ad spend with our "highest efficiency businesses" as defined by return on marketing dollar spent. Of particular note, AU's enrollment grew sequentially by 9%, primarily due to rising enrollments in our three new metros – Austin, Nashville, and Tampa.

On a year-over-year basis, AU enrollments decreased 13% as expected, primarily due to the intentional reduction in advertising spending year-over-year in our lowest efficiency unit, which

includes the Aspen University legacy Nursing + Other online unit, but excludes the high LTV Doctoral program.

In addition, recall that we announced last year that we'd reduced down to a maintenance advertising spend level in our Phoenix-based BSN Pre-Licensure campuses to manage our first-year pre-requisite student pipeline, which is approaching full capacity. We remain committed to not putting students on a waitlist and have dialed back our spend rate in this metro as a result.

As I mentioned earlier, USU new student enrollments decreased by 7% sequentially in the second quarter of fiscal year 2022 following a strong first quarter, but year-over-year new student enrollments at USU decreased by 3%.

On a Company-wide basis, new student enrollments increased sequentially from 2,276 to 2,380 or 5%. Finally, on a year-over-year basis, new student enrollments for the Company were down 10% due to the planned enrollment reduction in the Phoenix pre-licensure metro, the decreased spend rate in the Aspen Nursing + Other unit, and the COVID-19 impact on RN enrollments at USU.

Two primary dynamics in the nursing sector favor the Aspen Group business model. First, the ongoing nursing shortage provides a strong backdrop for the continued expansion of our high-LTV BSN Pre-Licensure nursing program. Second, RNs interested in moving to private clinics and the growing awareness within health care organizations of the economic benefits of hiring FNPs will be drivers for continued growth in our FNP degree program.

We expect that as these temporary headwinds diminish, Aspen Group will be well positioned for accelerated revenue growth, as the ongoing nursing shortage provides a strong backdrop for the continued expansion of our high-LTV BSN Pre-Licensure nursing program. As such, we continue to be on track to open our next Pre-licensure campus in a Tier 1 metro in the Spring of 2022.

While the COVID-19 pandemic may continue to impact post-licensure revenue growth, the Company will carefully manage discretionary G&A spending in the coming months to minimize the impact of any revenue shortfalls.

However, we will not eliminate spending critical to the execution of the Company's long-term strategy. With \$11 million in cash and cash equivalents, the Company has a solid liquidity position for the remainder of the fiscal year.

Before I hand over the call to Matt to review our second quarter financial results and update our guidance for this year, I'd like to talk about what a critical asset we're building with our national pre-licensure footprint.

Over the past two years, the two largest independent, multi-city, pre-licensure nursing schools have been acquired; first Galen College of Nursing was acquired in 2020 by the health care system HCA, then Rasmussen University a few months ago was acquired by American Public Education.

Following those acquisitions, Aspen is now the only national pre-licensure nursing school that remains independent. As the nursing shortage continues to intensify in the coming quarters and years, this footprint will only grow in value.

I will now hand the call over to Matt to cover the details of our second quarter financial results.

Please go ahead, Matt.

Matt LaVay

Thank you, Mike, and good afternoon everyone. In my comments on the quarterly results, I will refer to the second quarter that ended on October 31, 2021. All comparisons are to the prior year's second quarter ended October 31, 2020, unless otherwise stated.

Total revenues were \$18.9 million versus \$17.0 million in the year-ago quarter. United States University (USU) revenue for the quarter, which includes the high LTV MSN – FNP program, accounted for 33%, or \$6.2 million versus 29%, or \$4.9 million in the same prior year period. Aspen University's (AU) revenue in the second quarter of fiscal year 2022, which includes the high LTV BSN Pre-Licensure program, accounted for 67%, or \$12.8 million, versus 71% or \$12.1 million of overall Company revenue in prior year period.

GAAP gross profit increased 4% to \$9.7 million for Fiscal Q2 2022 compared to \$9.3 million for Fiscal Q2 2021. Gross margin was 51% for Fiscal Q2 2022 compared to 55% for Fiscal Q2 2021. Gross margin in Fiscal Q2 2022 was impacted by higher instructional costs related to opening of new campuses in the Pre-Licensure program and fewer class starts than anticipated in the post-licensure program due to the effects of the COVID surge. AU gross margin was 50% of AU revenue for Fiscal Q2 2022 versus 56% in Fiscal Q2 2021, and USU gross margin was 58% of USU revenue for Fiscal Q2 2022 versus 56% in Fiscal Q2 2021.

As the student population continues to grow in our new high margin BSN Pre-Licensure unit locations and combined with reduced advertising spend in our lower LTV business unit, we anticipate gross margin improvement by the fourth quarter of this fiscal year. Please keep in mind that we can't anticipate the impact of the ongoing COVID headwind on our gross margin objectives, although we believe this headwind to be temporary.

Overall instructional costs for the quarter were \$4.8 million, or 26% of revenue, up from \$3.7 million, or 22% of revenue. The increase in instructional costs as a percentage of revenue was primarily due to the hiring of full-time faculty for the new pre-licensure program at the new campuses in Nashville, TN, Tampa, FL and Austin, TX, and increased costs for educational materials across all programs.

As our new campus enrollments increase, the additional contribution to profitability will factor into lifting the gross margin by the end of the fiscal year 2022.

Total marketing and promotional costs for the second quarter were \$4.0 million, or 21% of total revenue, up from \$3.6 million, or 21% of revenue and roughly in-line with the prior quarter. The increase of marketing results from the planned increase in ad spend primarily directed to our three new pre-licensure metros and is in-line as a percentage of revenue. As we stated on earlier calls, we have shifted our marketing spend toward our highest LTV programs to improve the efficiency of our marketing spend.

The quarter's general and administrative costs were \$11.6 million, or 61% of total revenue, compared to \$11.3 million, or 66% of total revenue, during the comparable prior-year quarter. G&A spend was almost flat as compared to the prior quarter and decreased as a percentage of revenue due to the continuation of cost controls implemented in conjunction with Aspen 2.0. We have specifically focused on managing our headcount costs by reducing hiring and focusing on adding positions essential to our strategy of growing our highest LTV programs.

Net loss and net loss per share were (\$2.9) million and (\$0.11), respectively for Fiscal Q2 2022 compared to (\$4.4) million and (\$0.19), respectively, for Fiscal Q2 2021.

From a subsidiary perspective, Aspen University's net income for the quarter was \$1.3 million, down compared to \$2.2 million in the prior-year period. The decrease in AU's net income is attributable to the opening of the new campuses in our pre licensure program. USU's net income was \$877,000 versus \$558,000 in the prior year quarter. Finally, AGI incurred a net loss of (\$5.1) million for the quarter, compared to a loss of (\$7.1) million in the prior-year quarter.

Consolidated EBITDA for the quarter was a loss of (\$1.9 million) as compared to (\$2.3 million) in the prior year period. Second quarter EBITDA period-over-period for each of the three subsidiaries was as follows:

- Aspen University generated \$2.0 million compared to \$2.7 million
- USU generated \$976,000 compared to \$589,000
- AGI had an EBITDA loss of (\$4.9 million) compared to an EBITDA loss of (\$5.6 million)

Consolidated Adjusted EBITDA was a loss of (\$715,000) compared to positive Adjusted EBITDA of \$185,000 in the prior-year quarter. The prior year quarter included a \$1.2 million adjustment from non-recurring stock-based compensation items. Adjusted EBITDA for Fiscal Q2 2022 excludes a one-time positive impact of approximately \$104,000 primarily related to non-recurring professional service fees and \$350,000 related to bad debt expense.

From a subsidiary perspective, Aspen University generated Adjusted EBITDA of \$2.3 million in the second quarter, as compared to adjusted EBITDA of \$3.4 million for Aspen University in the second quarter of 2021.

USU generated Adjusted EBITDA of \$1.1 million compared to \$710,000 in the second quarter of 2021. Finally, AGI Corporate incurred an Adjusted EBITDA loss of \$4.1 million in the quarter compared to an Adjusted EBITDA loss of \$3.9 million in the prior-year period.

Of note is this quarter is that once again, our operating subsidiaries delivered Adjusted EBITDA margins in the high teens during a period of new campus investment, and despite the temporary COVID related headwinds that impacted RN enrollments.

Aspen University's Adjusted EBITDA margin was 18% as compared to 28% in the prior year quarter. USU's Adjusted EBITDA margin was 18% as compared to 14% in the prior year quarter.

Moving to the balance sheet, at October 31, 2021, our unrestricted cash and cash equivalents were \$11.0 million, and restricted cash was \$1.4 million. At April 30, 2021, our unrestricted cash and cash equivalents were \$12.5 million, and restricted cash was \$1.2 million.

On August 31, 2021, the Company drew down \$5 million on the credit facility and extended the maturity by one year to November 4, 2022. The purpose of these funds is to be used for general business purposes, including the roll out of our new campuses. As we execute the Aspen 2.0 business plan, we anticipate decreasing the need to borrow funds in the future. We are confident that despite COVID headwinds, we have adequate liquidity to execute our business plan for the remainder of fiscal 2022 with no additional borrowings.

With respect to our share count, the weighted average number of common basic shares outstanding at the end of the quarter was 24,957,046 versus 22,791,503 in the year-ago quarter.

Today, in the earnings release issued after the market close, we introduced the revised guidance for the fiscal year 2022. This update reflects the COVID impact on our second quarter results, and only assumes a modest recovery in the second half of the year. As we previously stated, we believe the COVID impact is temporary, but there is significant uncertainty as to when the impact of the most recent surge will abate.

We anticipate revenue in a range of \$77.0 million to \$80.0 million, representing an increase of \$18.7 million or 16% year-over-year from the mid-point of the guidance range, and GAAP loss per share of (\$0.38) to (\$0.29) cents for an improvement of \$0.10 cents or 24% year-over-year from the midpoint. EBITDA for the full year is anticipated to be in a range of (\$5.0 million) to (\$3.0 million), an increase of \$2.0 million or 33% from the mid-point. Lastly, we expect Adjusted EBITDA in a range of (\$2.0 million) to break-even, decreasing year-over-year by \$2.3 million from the mid-point of the range.

It is important to consider the impact of our pre-licensure expansion strategy on our guidance. The expansion of pre-licensure campuses reduces both gross margin and EBITDA during the 18- to 24-month period in which the student body ramps to breakeven operating levels.

The reduced profitability has purposely been implemented by management in order to ensure successful growth of the company for years to come. It's also discretionary. As a matter of fact, we estimate our fiscal 2022 high and low projected EBITDA guide without consideration of investments in ramping pre-licensure locations would increase by approximately \$4.6 million, meaning the Company would be approximately EBITDA breakeven for this fiscal year if not for the opening of the three pre-licensure campuses over the past 1 ½ years.

That concludes our prepared remarks. I will now turn the call back to the operator for questions.

Operator, please open the call for Q&A.

Q&A Session

Operator

Thank you. Our first question comes from Darren Aftahi with ROTH Capital Partners. You may proceed with your question.

Darren Aftahi

Hey guys, good afternoon. Thanks for taking my questions. Just two, if I may. I know COVID is a little bit of a headwind for you guys. Just kind of -- could you caveat what you can control on the cost side and what you can't control? And then on marketing, I know you've kind of paired the enrollments in the Phoenix campus, but are you going to in aggregate pull back on marketing spend just given what you're seeing; and if so, where would you actually be putting the marketing dollars the remaining year? Thanks.

Michael Mathews

Yeah. Darren, its Mike Mathews. I will answer the second question first. We've had a lot of debates internally about how we want to handle our marketing spend for the rest of the fiscal year, and we're going to maintain our existing Aspen 2.0 business strategy, which means that we're going to drive

growth spending in our USU business, as well as in our new pre-licensure locations and we've already of course dropped spend in our Phoenix location and we dropped spend in our Aspen Nursing + Other unit. So we're not looking to make any changes at this time in our marketing plan, and I will turn it over to Matt on the cost side.

Matt LaVay

Yeah. So the question is, what's the controllable versus non-controllable spend as we deal with COVID. So what we can control are corporate costs, G&A, specifically. There's the Aspen 2.0 plan originally assumed that we were going to control G&A costs and that with corporate G&A costs the idea is we're going to keep those costs flat.

For the remainder of this year and really into next year as well we are very confident that we can keep that spend flat without impacting our operations or our ability to grow or execute on our strategy. So that's what's in our control.

Additionally, there is some ramping of G&A that is associated with the pre-licensure new campus rollouts. That's discretionary to some point, because we obviously can pull back on rolling out new campuses, but that's not within our strategy. So the plan is let that G&A increase just specific to the new campus roll out.

The other item that's not controllable would be the instructional cost piece of the equation. As we grow our student body, we obviously have to fund their education, their experience, and so you will see instructional costs grow in proportion to the revenue growth.

The one thing I'd say is, in this current fiscal year in 2022, we've had multiple campuses rolling out and we've had to invest in these instructional costs in advance of the student body ramping to full capacity or to our plan. We will grow into that somewhat next year.

And so I think you will see as we go through time, the instructional cost as a percentage of revenue modestly dropping off as we accelerate our new campus rollouts, and as we talked about before, we might have at least another Tier 1 next year, but that's out into the future and the overall trend will be positive. So hopefully that answers your question.

Darren Aftahi

It does. Thank you.

Operator

Thank you. Our next question comes from Eric Martinuzzi with Lake Street. You may proceed with your question.

Eric Martinuzzi

Yeah. It sounds like you are seeing some evidence in November of correction in the negative trends that you have seen from the middle of June through October. Did -- was that November indication, because I know you guys have -- you don't have the same number of class starts per month, but was that based on evidence from at least a couple of class start cycles?

Michael Mathews

Yes. Hi, Eric. It's Mike Mathews. So, yeah, so if you don't mind, I wouldn't mind just kind of going back and talking a little about history so that you guys can get more color on kind of what this COVID effect has been.

If you go back and you look at our active student body at Aspen Online, so of course I am excluding pre-licensure in this conversation, our year-over-year student body at Aspen Online in fiscal year 2021, the last fiscal, it grew by 7% year-over-year on average. Our class starts last fiscal year rose by 10%. Typically our class starts are 2%, 3%, 4% higher than the growth of the active student body. As you know, as we went into fiscal year 2022, from May through October -- so the first five months of this fiscal year, our student body grew by on average 5%. So it grew a little bit less at Aspen Online than the year before and partly because we've dropped our spend rate purposely in the Aspen Nursing + Other units.

So typically, if you have an increase of 5% of your active student body over this five months period, you would assume that the class starts for these primarily registered nurses (RNs) would grow by 7%, 8%, 9%, somewhere in that range and it only increased by 3%.

So hopefully that gives you guys an understanding of kind of what has occurred in this first five months of the fiscal and how registered nurses are showing fatigue, they're showing a little bit of exhaustion and they're just simply taking less courses during this handful of month time frame. We absolutely believe this is a temporary effect. So, I don't want anyone going away thinking that this is potentially a systemic issue. It's certainly not.

So for November, yes, Eric, we saw some normalcy in November. So, we're pretty excited about that and our first class start of December was also strong. But remember, last year November/December were months where we saw our original initial COVID effect. So the year-over-year comp was not as difficult in November/December. But so far, we're seeing an increase kind of on a normalized basis of what we would usually expect. So, hopefully, all that color helps you guys with sort of what the situation has been.

Eric Martinuzzi

Okay. And then just a follow-up on the enrollment side there, what about the unit economics. I know you published in your Q. I haven't had a chance to dive into it. That's usually where you talk about the unit economics. But have those been weaker given you're signing up fewer, are you having to pay more to get the students you're getting?

Michael Mathews

Yeah. That's a really good question. So the results have been mixed. We announced today that our enrollments at USU were down 7% sequentially and that was a bit of a surprise for us. We've never had a sequential decrease that I can recall at USU over a four-year period.

So there's no question, and of course, our FNP program, you have to be an RN with the baccalaureate degree to join that program. So there's no question that the enrollment slowdown at USU was a COVID effect and as a consequence of that obviously our cost of enrollment would go up in that kind of a situation, because we didn't change the spend rate.

However, interestingly, the good news is that, in our Aspen Nursing + Other and our Doctoral Groups, so in other words our Aspen Online programs, the cost of enrollment actually decreased, part of that is because any time we decrease our spend rate, we do see some efficiency.

We actually saw our cost of enrollment in our Aspen Nursing + Other unit drop down below \$1,000, which we haven't been below \$1,000 I think in a couple of years. So, yes, it's been a bit of a mixed bag. The FNP program enrollments were a little bit challenging this quarter, while our enrollments on the Aspen side did fine.

Eric Martinuzzi

Thanks for taking my questions.

Operator

Thank you. Our next question comes from Jeremy Hamblin with Craig-Hallum Capital. You may proceed with your question.

Jeremy Hamblin

Thanks. So I wanted to follow-up on the COVID fatigue aspect of the story and in terms of thinking about how this pandemic is evolving into an endemic situation with a new variant that seems to kind of pop-up every five months or six months. I think one of the concerns that we would have been looking at this is, the requirements that some of our healthcare workers are facing with, vaccinations are required for many healthcare systems, which is seemingly turning off some subset of employees. And in terms of facing those type of headwinds, do you think that's a factor in why you're not seeing more people, more enrollments for your programs? Any comments would be helpful.

Michael Mathews

Jeremy, I just have to say that, it's really too early for us to have a strong opinion either way. Our enrollments again this quarter, we had a challenge in terms of a little bit of slowness relative to our FNP side. But in our traditional Aspen Nursing + Other unit, things went according to plan. So the short answer is we don't know yet. It's really too early to tell.

We feel incredibly strongly about the business model that we have, which is focused intensely on the nursing sector. COVID is unquestionably a temporary situation. We don't know exactly when that's going to abate in terms of the requirement of nurses to remain working long hours. But there's nothing that we're seeing that would suggest that, again, this would be a long-term systemic issue.

Jeremy Hamblin

Got it. And then I wanted to come back to your commentary around competitor acquisitions, you guys are now the largest independent nursing school. In terms of thinking about since those acquisitions have happened, competitive response on the pricing front, my understanding is, some of your competition has slightly altered their pricing strategies and markets that you've entered. Can you comment at all on what you're seeing from competitors in your four markets, in particular your newer markets where it seems like they've maybe pushed back a little on the pricing structure?

Michael Mathews

Well, so the two universities that have been acquired, Galen College of Nursing and Rasmussen, we certainly see them in our metro locations since Galen was acquired by HCA. They've been very aggressive at launching initially an Austin location inside an HCA hospital system and they've also announced they're going to move to Northern Virginia next. So they're moving relatively quickly to expand. We have not seen any pricing changes from a tuition point of view amongst our competitors.

To jump subjects for a moment, we are seeing some significant increase in spend rates amongst some of our competitors. And when we do see spurts of spending that take place with some of our competitors and some of our programs, we see short-term cost-per-click (CPC) rises. We don't chase that. We never will. So we're not seeing any long-term changes in terms of CPCs and our cost per lead, but we will continue carefully watching the competitive set.

Jeremy Hamblin

Great. Thanks. Last one for me, so in your largest market in the Phoenix Metro, you started to have a series of NCLEX exam scores that have been lower than been desired. In terms of approaching that to improve test results, can you provide us with an update on the expectation for changes that are being made in the curriculum/training given to students that are prepping for that -- for those exams? And kind of an expectation around the time line that you think you'll get those exam scores up above the levels that you're looking for? Thanks.

Michael Mathews

Sure. Yeah, we recognize that NCLEX first time pass rates is a clear indication of academic quality. So we're intensely focused on increasing these scores. The scores this year have been hovering in that 60% range, which is just not good enough.

So over the last 12 months, we've made four significant changes to our program in Phoenix to ensure that we do get improvements to our NCLEX scores in the short-term. Each of the changes that I am going to explain to you takes time to take full effect. But we're expecting next calendar year to see material improvements to our scores starting in the first quarter.

So the first thing we did is, we increased our minimum GPA requirement for our first year students that are matriculating into our final two-year core program. We changed that GPA requirement from a minimum of 2.75 to 3.0. That change we made effective as of our November 2020 academic catalog.

The second move we've made, we've mentioned in our previous earnings call, we hired a full time NCLEX coach for any students that are having difficulty passing some of the NCLEX prep exams within the curriculum. We hired that full time NCLEX coach back in January. So she's been in the system for about eight months, nine months now.

The third thing we did is we implemented the Elsevier Predictor Exam System into our curriculum and that was inserted into the curriculum as of this past August. So, that's still relatively early days in terms of seeing improvements.

The most recent change we made is maybe the most critical change, which is we've now implemented Kaplan's NCLEX test prep product as a requirement for graduation as of our graduating class of November, so this past month. It's embedded into our final 16-week semester curriculum and

the students must reflect that they're able to pass that prep exam in order to graduate and then take the NCLEX exam.

So those four changes, were very, very comfortable that putting those four things together is going to allow for significant material improvements in the upcoming calendar year.

Jeremy Hamblin

Thanks. That's super helpful. Best wishes.

Michael Mathews

Thanks.

Operator

Thank you. Our next question comes from Austin Moldow with Canaccord. You may proceed with your question.

Austin Moldow

Hi. Thanks for taking my questions.

Another COVID one, can you talk about what's different about the COVID impacts now versus a year ago considering, I don't think the impacts were as great a year ago, but sort of hospitalizations and other metrics were worse overall in the country. So can you just talk about what's different now?

Michael Mathews

Yeah. Well, basically, we've been very transparent about any COVID effects that we've seen since the pandemic began. We felt it was very important to do so, because we believe we're the most heavily concentrated nursing higher education company in the United States.

So, I think the important thing to recognize is that, we saw a very short-term effect in November, December, a year ago. That effect went away quite quickly. So I think what happened in that first phase of the pandemic that students, for RNs, it was their first opportunity to take a quick vacation and take a breather during the two holiday months of a year ago.

We then saw a stronger than normal spring. If you guys remember last quarter, Q1, we over performed, we beat all of our guidance for the first quarter and that was a result of registered nurses having taken off November, December and then they came flowing back during February through April and then all of a sudden, as you guys know, we started, as soon as mid-June came, we've seen the effects from mid-June all the way through the end of October and it looks like November has turned back again.

So the best that I can say to you is that, the second wave is causing, I think, a certain amount of burnout, a certain amount of exhaustion, a certain amount of fatigue. And if you're a registered nurse right now, you're probably just going to take less courses short-term, while you are able to sort of overcome your daily life and the experiences and all of the sadness and such.

So, we will get through this. They will get through this. They will come back to normal. Hopefully, they already have starting November. So I can't say enough about our great demographic of registered nurses that makes up most of our schools. Frankly looking back on the last year and a half, I am amazed at how well they've hung in there and continue to do so.

Austin Moldow

Got you. That's helpful. And then on GAAP net income, so I understand that the guidance has come down, but can you talk to the kind of exit velocity for this fiscal year and how that changes from your prior guidance for the end of the year?

Michael Mathews

Yeah. I am glad you asked, because we really wanted to touch on guidance for the rest of the fiscal and then talk about next year as well. So I am going to turn it over to Matt for that.

Matt LaVay

Yeah. So we put the guidance out there for the rest of this fiscal. So I really would like to focus on where we go from there. What does it look like going into 2023? And so next year conservatively, we think that there's a 15% growth rate next year, which would imply about a \$12 million increase in revenue year-over-year versus where our revised guide is today.

And with that, I explained earlier, we have this strategy of holding our corporate G&A flat and that will continue through next year. We are confident in our ability to control costs through next year. So that means we're going to get some leverage.

The result would be an adjusted EBITDA improvement of about \$6 million. Also fueling that adjusted EBITDA improvement is the fact, as I mentioned before, that our gross margin will improve as we grow into our new campus locations and that infrastructure becomes more and more productive.

So gross margin improves, G&A is flat, adjusted EBITDA up about \$6 million on a \$12 million revenue increase. And so that would translate into, if you look at the midpoint of adjusted EBITDA this year of about \$5 million of adjusted EBITDA next year.

Michael Mathews

And if I could just add to what Matt just said, we are intensely focused on becoming profitable as a company, obviously, given the announcement a quarter ago of our Aspen 2.0 business plan. And our forecasts suggest that, if we do in fact deliver a \$6 million improvement and therefore \$6 million of leverage next year -- we won't burn cash, we will be basically cash neutral for the year. So that's a big goal of our company -- to be self-sustaining and I am pretty confident we will get there.

Austin Moldow

Got it. And last question, I wanted to ask how conversion rates and start rates are changing -- for conversion rates, leads to enrollments and enrollments to starts. Just curious if you have any color there?

Michael Mathews

Well, I kind of did it earlier, we saw in the last 90 days, we saw our conversion rate decrease at USU. And we're hopeful as the month of January rolls around that that will turn around. At Aspen Online, which includes our Aspen Nursing + Other unit and our Doctoral unit, our conversion rate is just as good if not slightly better over the last 90 days. So hopefully that helps.

Matt LaVay

One other piece of color I'd like to add, as it relates to the guide and next year, I think, the obvious question comes up, how are we thinking about COVID, as we put these revised numbers out? And the answer is, our forecast is conservative. We're assuming that this COVID effect persists and that the growth is really based on where we are today and kind of a nominal growth rate from there.

A lot of the growth as you know, Mike talked about, we're growing our PL campus locations. That is one area that has not been affected by COVID, not like the RN population. And so that growth will drive us forward even in light of what's going on with the Delta variant, now the Omicron variant and all of that. So you can feel confident that the numbers that we're putting out there are not assuming some sort of a COVID snapback in the second half or into next year.

Austin Moldow

Okay. Thanks very much.

Operator

Thank you. Our next question comes from Raj Sharma with B. Riley. You may proceed with your question.

Raj Sharma

Hi. Good afternoon, guys. I just wanted to get back to the guidance and also the related impact from COVID. So the guidance for fiscal 2022 revenues seems to be a bigger drop than a snapback, would presume. So sort of the guidance was \$86 million for the year before and now it's \$78.5 million. That's about \$8 million drop in revenues. And so you were saying last year when December COVID intense overloads were sort of reversed when you came back in April quarter, you're not expecting that sort of snapback in the third quarter?

Michael Mathews

Yes.

Raj Sharma

... and the first quarter?

Michael Mathews

So, Raj, if you go back one year, you will -- and of course, everyone is aware that our January quarter is a slow seasonal quarter, because you've got the holiday months of November, December and our students have historically taken less courses during those holiday months. Last year, sequentially, our revenues went down from Q2 to Q3 by I believe about \$350,000.

Raj Sharma

Right.

Michael Mathews

This year back at the envelope, we're looking at maybe it only goes down by \$100,000. So that's what Q3 looks like. And then you are correct, we're being very conservative on Q4, we don't know how things are going to occur at this point, whether there's going to be a material improvement or a snapback. So we're just being conservative at this point, which gets us to the middle of that \$78.5 million range.

Raj Sharma

Got it. And then just on the pre-licensure, the Phoenix enroll -- is Phoenix enrollment supposed to be back on in Q3?

Michael Mathews

No. We reduced our spend rate as of Q3 last year. And then, so in other words, so we've had essentially 12 months now of lower spending in Phoenix and we've been doing 200 to 250 enrollments per quarter for the past year, whereas the year previous if you guys recall, we were doing 500 plus every quarter.

So it was a big drop down and we're planning to continue that kind of a run rate. We're only doing a maintenance spend rate in Phoenix and we've been doing that for, again, multiple quarters and the plan is to...

Raj Sharma

Yeah.

Michael Mathews

... continue doing that going forward.

Raj Sharma

And when can you start enrolling back into the first year of the program in Phoenix?

Michael Mathews

Well, the entire plan is based on us wanting to have approximately 1,650 students that are in the first year program, always having that number in the pipeline. We're pretty close to that 1,650 number.

So the way that we're looking at this now is, we study carefully what's our attrition going to be in Phoenix each year and the attrition is two pieces, right? You've got expected graduations and withdrawals. And so, our analysis suggests that the attrition per annum is in the 800- to 1,000-student level per annum and that's why we're enrolling that same number approximately per annum currently. Does that make sense?

Raj Sharma

Right. Okay. And then how are starts sort of shaping up at the other new campuses? Have those been impacted at all by the current environment or you just seeing a good sort of enrollment. Has that filtered through -- the people still want to sign on?

Could you give a little bit more color on that?

Michael Mathews

Yeah. So we mentioned in our earnings remarks that we had a sequential increase of enrollments at Aspen University this past quarter and it was almost entirely a result of pre-licensure growth in our three new metro markets. So we're not seeing any headwinds from COVID with high school graduates that are looking to become registered nurses to join in our Pre-Licensure BSN program.

I think I've mentioned in the previous earnings call that, if you look at the three new markets and actually, let's start off with Phoenix. If you look at Phoenix, the first 12 months in Phoenix, we had about 500 new student enrollments in that first year. And Austin, I believe we just passed the one year mark and we had about 300. So Austin has been a very good market for us. We never expected Austin to meet Phoenix rates.

Raj Sharma

Okay.

Michael Mathews

Because Austin, it's not a Tier-1 size. Nashville has not hit the one year mark, but it's tracking pretty comfortably to about 200. So and again, Nashville is a smaller market than Austin. So that's to be expected.

I think the only weakness that we've seen is Tampa, it's been slower than we expected. We've been enrolling in Tampa, I believe for about eight months now approximately and we're probably going to have around about 100 enrollments in Tampa in that first year. So Tampa has been a little bit weak and the other two new markets have been either as expected or a little bit stronger than planned.

Raj Sharma

Got it. And then just lastly on the guidance for the following year 2023, so you're expecting about -- you talked about two numbers, it was \$12 million with the increase in the revenues from the revised guidance. So that will put you closer to the 90 plus and then the \$6 million is the adjusted EBITDA increase from the negative to the flat that you're expecting this year...

Michael Mathews

Yeah.

Raj Sharma

Is that correct?

Michael Mathews

Yeah. Correct. What Matt said is that, we're expecting an increase of about \$12 million in revenue year-over-year and we expect to achieve adjusted EBITDA leverage of 50%. So we expect the improvement to be \$6 million year-over-year and if we're in the minus \$1 million of adjusted EBITDA this year, that's the middle of the range, that would imply a \$5 million positive EBITDA -- positive adjusted EBITDA for next fiscal year.

Matt LaVay

Yeah. We're able to achieve that leverage, as I said before, by holding that corporate G&A flat. And as I mentioned, we're going to get some improvement on the gross margin percentage and so when you factor that in that we get enhanced EBITDA leverage and that's not a stretch to get there.

Raj Sharma

Yeah. Okay. Thank you, guys. That completes my questions. Thank you.

Operator

Thank you. Our next question comes from Mike Grondahl with Northland Securities. You may proceed with your question.

Mike Grondahl

Hey, guys. Just a little follow up on Austin, Tampa and Nashville. When do you roughly see those getting to breakeven and what can you take from the learnings of those three and apply it to this new market, you may be starting in the spring?

Michael Mathews

Yeah. I mean, so if you look at Tampa, for example, we've had about 100 enrollments to-date. We're approaching a 100 enrolments to-date. And last quarter Tampa's operating loss was sort of in the vicinity of about \$350,000.

Our expectation is that, we should be able to achieve a breakeven level in Tampa, probably, I would say, sometime late next fiscal year. But for Austin, we're getting close. I mean, we're within a couple of quarters of breakeven in Austin and then Nashville of course, was our last opening. So we're probably looking at about a year before that turns profitable.

Mike Grondahl

Got it.

Michael Mathews

I mean, the way to look at this is that in Phoenix, if you guys recall, we broke even after 12 months, it was a very rapid start to breakeven level. These new markets are closer to kind of two years. That's what it's looking like, which is perfectly fine for us.

Operator

Thank you. And I am not showing any further questions at this time. I would now like to turn the call back over to Michael Mathews for any closing remarks.

Michael Mathews

Thank you everyone for joining us on our second quarter earnings call today. We're looking forward to talking to you again in our third quarter 90 days from now. Have a good afternoon. Thank you.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.