

Aspen Group, Inc. (NASDAQ: ASPU) Second Quarter Fiscal 2023 Earnings Conference Call

December 13, 2022, 4:30 pm ET

Company Participants

Michael Mathews – Chairman and Chief Executive Officer

Matt LaVay – Chief Financial Officer

Conference Call Participants

Eric Martinuzzi - Lake Street Capital Markets

Raj Sharma - B. Riley Securities

Brett Reiss - Janney Montgomery Scott

Mike Grondahl - Northland Securities

Operator

Good afternoon. Welcome to Aspen Group's Fiscal Year 2023 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 our restructuring initiatives including efforts to reduce expenditures and the anticipated results and benefits of these efforts, our plans to subsequently increase marketing spend rate and the impact that is expected to have in and timing of achieving year-over-year enrollment growth, our plan to maintain an approximately break-even adjusted EBITDA, the continued strong demand for the MSN-FNP program, our search for candidates for a potential A/R facility and the intended use of proceeds from any loan transaction that may result, anticipated future

revenue from the teach-out of our pre-licensure campuses, our future growth and growth strategy, our fiscal 2023 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, 2022, 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.

Reconciliations 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.

A transcript of this conference call will be 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.

We are encouraged by our second quarter results which reflect the impact of the actions we have taken to reduce marketing and general and administrative spend as part of the restructuring initiative that we launched in the prior quarter. Gross margin improved by 900 basis points on lower revenue, and we narrowed our net loss and delivered positive Adjusted EBITDA.

USU's revenue grew 9% on continued strong demand for the MSN-FNP program as that program continues to account for 83% of USU's total student body. This growth helped to offset the expected decline in AU revenue coming primarily from the combined effects of the teach-out of our BSN-PL program and significantly lower marketing spend.

We set out to right-size the Company with the restructuring initiated in the first quarter of fiscal year 2023, and our efforts are delivering results. The savings from the restructuring plan drove a year-over-year increase of approximately \$0.5 million in gross profit, which flowed through the P&L and reduced cash used in operations in the quarter by \$2 million compared to the year ago quarter, allowing us to improve Adjusted EBITDA to \$0.5 million versus \$(0.7) million last year second quarter.

For the quarter, cash flow from operations was positive \$1 million, and we ended the quarter with unrestricted cash of \$2.3 million, on par with the cash balance at the end of last quarter. Stabilizing our cash balance is a priority, and we are rigorously managing the company to achieve that.

One last item relating to our cash balance, as I discussed last quarter, we engaged Lampert Capital Advisors to assist with securing an accounts receivable (AR) financing agreement. Lampert conducted due diligence on our accounts receivable, which they recently completed. Subsequently, they began an outreach program to prospective lenders, and we are in the process of identifying potential candidates.

Switching now to our operational metrics for Q2.

There have been several events in the past calendar year that impacted our enrollment patterns, some due to external factors like increased workloads for nurses, but the two primary events were the enrollment stoppage following the announcement of the teach-out of our pre-licensure program and the significant reduction in our marketing spend levels following the posting last April of an \$18.3 million surety bond with the Arizona State Board for Private Postsecondary Education.

On October 31, however, we signed an updated stipulated agreement with the Arizona State Board for Private Postsecondary Education which reduced the surety bond from \$18.3 million to \$5.5 million. This has resulted in the insurance company recently agreeing to return \$1.5 million of the \$5 million of cash that was previously being held as collateral for the larger bond, providing the Company with additional cash for operations.

As a result of the two events just discussed, in Q2 of Fiscal year 2023, our marketing spend was down by \$3.1 million over the prior year quarter and \$3.7 million sequentially. Consequently, new student enrollments decreased 46% year-over-year.

The downward trend in enrollments has reduced AGI's active student body by 23% year-over-year, mostly due to AU's total active student body decrease of 29%. USU's total active student body decreased by 5% on a year-over-year basis. Nursing students continue to comprise 86% of AGI's total active students at the end of Q2 FY'23.

Of the students seeking advanced nursing degrees, 8,269 are RNs, including 5,517 at Aspen University and 2,752 at USU.

In contrast, the remaining 1,123 nursing students at quarter end were enrolled in Aspen University's BSN Pre-Licensure program in the Phoenix, Austin, Tampa, Nashville and Atlanta metros.

In terms of our future growth plans, with the pending release of the \$1.5 million from the insurance company, and our expectation that we close an A/R facility during Q4 of fiscal 2023, we intend to return to a marketing spend rate in our fiscal fourth quarter that is anticipated to resume year-over-year enrollment growth by the second half of our upcoming fiscal year 2024.

As we have communicated over the last few quarters, we have revised our business plan to refocus on our traditional post licensure nursing education business, designed to methodically replace the anticipated lost Pre-Licensure revenue that winds down at the end of fiscal 2024. Our near-term objectives are two-fold.

First, we intend to secure an A/R facility that will allow us to spend on an annualized basis between \$7 to \$9 million on new marketing campaigns that will drive enrollment growth in our USU FNP and Aspen Online nursing programs primarily. Second, we plan to manage the company with steadfast commitment to maintaining an adjusted EBITDA level in the breakeven to slightly negative range. Given our long history of driving post-licensure nursing enrollments and highly efficient online marketing initiatives, our entire management team is confident we can meet our near term and medium-term goals.

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, 2022. Unless otherwise stated, all comparisons are to the prior year's second quarter ended October 31, 2021.

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I will begin with a review of our financial results for the 2023 fiscal second quarter, including some detailed commentary on P&L items and additional commentary on the restructuring program initiated late in Q1. I'll then conclude with comments on our balance sheet and cash flow.

Financial highlights for the quarter are as follows:

Before I jump into the details, I want to call out three unique elements in this quarter to provide context to the details I will cover.

First, as expected, we saw a sequential decrease in our active student body, which is consistent with the marketing spend reduction begun in fiscal Q4 2022 and the stoppage of enrollments in all of our pre-licensure campus locations. This resulted in a quarterly sequential decline in revenue, in both our Aspen University online and pre-licensure programs. Our active student body decreased from 12,048 in Q1 2023 to 10,957 in Q2 2023.

Second, as part of the restructuring announced on last quarter's earnings call, we significantly reduced marketing spend in Q2, which positively impacted our gross margin and Adjusted EBITDA. Marketing spend was reduced to \$825,000 in the second quarter of fiscal 2023 compared to \$4 million in the year ago quarter and \$4.5 million in the sequential prior quarter.

Third, continued cost controls and the restructuring further reduced on-going G&A costs versus the prior year's second quarter and the sequential prior quarter.

Now on to the details.

Total revenue was \$17.1 million versus \$18.9 million in the year-ago quarter or a decrease of 10%. This decrease is attributed to the decrease in marketing spend that was initiated two quarters ago in Q4 fiscal 2022 and the halt to enrollments at our pre-licensure locations.

Gross profit and gross margin increased to \$10.2 million and 60%, respectively, versus \$9.7 million and 51%, respectively, for the year-ago quarter. The year-over-year gross margin improvement is primarily a function of lower marketing spend as I discussed in my opening remarks.

Instructional costs for the quarter were \$5.5 million, or 32% of revenue, up from \$4.8 million, or 26% of revenue, in the year ago quarter. Our core student population is increasing due to the progression of pre-licensure double cohorts in our Phoenix locations and the entry of pre-licensure students into the core curriculum in our newer locations. This in turn increases instructional costs as a percentage of revenue due to the requirement of a higher ratio of instructors to students during the core curriculum portion of the pre-licensure program.

Additionally, higher USU clinical immersion-related instructional costs were incurred in the quarter due to the growth in the MSN-FNP program.

Total marketing and promotional costs for the second quarter were \$825,000, or 5% of revenue, down from \$4 million, or 21% of revenue. The decrease in marketing as a percentage of revenue results from the planned decrease in marketing spend across all programs.

The quarter's general and administrative costs were \$10.9 million, or 64% of revenue, compared to \$11.6 million, or 61% of total revenue. The year-over-year decrease in G&A spend is due to both the impact of the restructuring and cost controls designed to reduce G&A spend across all functions, primarily corporate AGI.

Total net loss was \$2.3 million, or \$(0.09) per basic and diluted share, compared to a net loss of \$2.9 million, or \$(0.11) per basic and diluted share.

From a unit perspective, Aspen University's net income for the quarter was \$1.1 million compared with \$1.3 million. USU's net income was \$1.8 million versus \$877,000. Finally, AGI incurred a net loss of (\$5.2) million, compared to a net loss of (\$5.1) million. Included in the AGI net loss is interest expense of \$700 thousand

compared to \$100 thousand. The Q2 interest expense includes a 1% commitment fee of \$200,000 on the undrawn 2022 Revolving Credit Facility, which will not repeat in subsequent quarters.

Consolidated EBITDA for the quarter was a loss of (\$603,000) as compared to an EBITDA loss of (\$1.9 million) in the prior year period. Again, reduced marketing spend and cost control measures in G&A drove the improvement in EBITDA. Second quarter EBITDA compared to the prior year quarter for each of the three units was as follows:

- Aspen University generated \$1.9 million compared to \$2 million
- USU generated \$1.9 million compared to \$976,000
- AGI had an EBITDA loss of (\$4.4 million) compared to a loss of (\$4.9 million).

The increase in USU EBITDA is mostly attributed to increased revenue in the unit's FNP post-licensure degree program which has the highest concentration of students and the highest LTV.

Consolidated Adjusted EBITDA was \$537,000 compared to a loss of (\$715,000).

From a unit perspective,

- Aspen University generated Adjusted EBITDA of \$2.1 million compared to \$2.3 million, and Adjusted EBITDA margin was 20% as compared to 18%.
- USU generated Adjusted EBITDA of \$2.1 million compared to \$1.1 million, and Adjusted EBITDA margin improved significantly to 32% compared to 18%.
- Finally, AGI corporate incurred an Adjusted EBITDA loss of (\$3.7 million) compared to a loss of (\$4.1 million).

As Mike mentioned, we implemented a restructuring plan late in the first quarter of fiscal 2023, which has already resulted in significant cash benefits for the Company. These benefits are apparent in the second quarter results, and we expect additional benefits for the remainder of the fiscal year. There are two key components of the plan.

First, we scaled back marketing ad spend to maintenance spend levels of \$150 thousand per quarter which resulted in savings of \$3.7 million in Q2 vs Q1 and should deliver savings of \$3.8 million in Q3. The Q3 savings estimate is based on a normalized marketing ad spend run rate of about \$4 million per quarter.

Second, the restructuring included the elimination of approximately 70 positions, mostly within our G&A functions at Aspen University and AGI. As a result, additional restructuring savings of \$600,000 were realized in Q2 and \$1 million of additional savings are expected in Q3. The Q2 G&A savings were \$150,000 less than we had initially expected, primarily due to the timing of eliminating positions, which does not impact our forecasted future savings.

Total spend reductions were \$4.5 million in Q2 and are expected to be \$4.9 million in Q3.

In summary, these significant spending reductions positioned the company to generate positive cash flow from operations beginning in the second quarter.

Moving to the balance sheet. As of October 31, 2022, our unrestricted cash and cash equivalents were \$2.3 million, and restricted cash was \$6.4 million. As of April 30, 2022, our unrestricted cash and cash equivalents were \$6.5 million, and restricted cash was \$6.4 million.

Cash used in operations for the first six months of fiscal 2023 was \$2.6 million. Importantly though, cash generated from operations for the second quarter was positive \$1 million. The shift from operating cash flows using cash of \$3.6 million in the first fiscal quarter to being a source of cash in the second fiscal quarter was the result of lower discretionary spending on marketing and the benefits of our restructuring plan, which narrowed our net loss. Our second quarter cash generated from operations also includes \$418,000 of tenant improvement reimbursements.

A cash flow positive change in working capital also played a role. The positive working capital impact was expected as decreased marketing spend reduced enrollments which then decreased capital needed finance growth in student receivables. We also had cap ex spend during the first six months of \$842,000. Without the continued investment in pre-licensure campus locations, our cap ex spend going forward should approximate \$300,000 to \$400,000 on a quarterly basis.

As Mike previously mentioned, subsequent to the end of Q2, \$1.5 million of restricted cash associated with the surety bond will become unrestricted, providing additional cash for operations. Additionally, the insurance company agreed to terminate the draw restriction on the 2022 Revolving Credit Facility Agreements. When the AR facility closes it will become senior secured, and at that point we will terminate the 2022 Revolving Credit Facility Agreements.

With respect to our share count, the weighted average number of common basic shares outstanding at the end of the quarter was 25,282,947 versus 24,957,046.

We are not providing guidance at this time. We plan to update our business plan accordingly when we close and execute an AR financing agreement. The objective of the AR facility and related business plan will be to resume marketing spend at a level which allows us to offset the decline in the pre licensure student body with a growing post licensure on-line student body while at the same time achieving operating results of approximately break-even to slightly negative adjusted EBITDA.

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.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Eric Martinuzzi with Lake Street. Please proceed with your question.

Eric Martinuzzi

Yes. I wanted to dive into the marketing spend just to get a feel for that. It sounds like it's all kind of contingent on the AR financing. But just to get the quarters correct here, you said Q1 was \$4.5 million of marketing spend; Q2, it dropped down to \$825,000; and then your plan for Q3, could you tell me that again?

Michael Mathews

Good afternoon Eric, it's Mike. Our plan in Q3, because we're looking to close the AR facility about at the end of the third quarter, which is the end of January, so this full quarter is kind of a maintenance spend. So it will be sub \$0.5 million spend rate this quarter.

Eric Martinuzzi

Okay. I know we're pulling back across the board here. But we had growth in revs at the USU segment level, but our student body actually declined. Can you help me understand that?

Michael Mathews

Well, I think in the last couple of quarters, we did mention that we had a little bit of a price increase at USU and a few other of our degree programs. So I think the pricing is what's helped increase the revenue for USU even though there is a very, very small modest decline of student body year-over-year.

Eric Martinuzzi

Okay. And then what's the expectation? Does USU student body continue to decline as the marketing spend is reduced here this quarter?

Michael Mathews

Yes, I think one of the pieces of great news that I would love our analysts and our great shareholders to take away today is that even though we dropped our spend rate quite significantly in the second quarter and as well in the third quarter, and I've mentioned historically that we have such strong brands, and we've been spending so much in marketing over the last 5 - 6 years, that about third of our enrollments are organic in nature. In other words, we don't pay for the ad.

So our enrollments, as you guys can see, if you take pre-licensure out of the equation, our enrollments have not declined as much as one might forecast or expect. So we're hanging in there quite well even though our spend rate went down to a maintenance level. So hopefully, folks are impressed by the results of the enrollments, even though, again, there is not a significant spend rate.

Eric Martinuzzi

I know you're not giving specific guidance for the third quarter, but seasonally, it's a softer quarter with the holidays. Should we anticipate any change in that trend? In other words, the January quarter down sequentially from the October quarter?

Matt LaVay

Yes. This is Matt. I'll take that. So from a revenue standpoint, you can expect to see our results decline modestly from Q2 into Q3 because of the fact that there is a seasonal weakness. And the other factors, we're continuing to teach out the pre-licensure program. So the effects of both of those will put some pressure downward on revenue.

As a result, from a bottom line standpoint, we will still hover around that breakeven adjusted EBITDA, but we will probably dip slightly negative for the next quarter. We will still realize all of the savings that we put in place from the restructuring. So we will have another solid quarter when it comes to G&A savings and the marketing savings, but the revenue declines that will mostly impact the bottom line.

Eric Martinuzzi

Okay. And then last question for me, what is it that's seeming to take forever on the AR financing?

Michael Mathews

Well, I don't think it's – I would disagree that it's taken forever. We tried to get a facility back in the spring this year. And there was a fairly significant amount of regulatory noise, I think that all the shareholders are aware of. And so we got a couple of term sheets that we didn't like. So we declined. And we made the decision to hire a banker that specifically focuses only on helping companies find debt solutions, which is Lampert Capital. So we're making great progress. And again, we have every expectation that we will close it in the next couple of months.

Eric Martinuzzi

Okay. Well, thanks for taking my questions and good luck.

Michael Mathews

Thanks, Eric.

Operator

Our next question comes from the line of Raj Sharma with B. Riley. Please proceed with your question.

Raj Sharma

Yes. Thank you for taking my questions. Good results. I wanted to follow-up on the AR financing. It seems like the marketing – you’ve said marketing is in maintenance mode. But I think you’ve also just said that you’re waiting for the AR financing to kind of ramp the marketing spend back up and so that you can get year-on-year improvements in the starts. Can you kind of give us an indication of what that level would be? And are you going to take it right back up to \$4.5 million or half of that or – and what does growth mean, 5% starts growth you are aiming for? Because it seems to be dependent upon – your marketing budget seems to be dependent – significantly dependent on AR financing. More color on that would be great.

Michael Mathews

Yes. Good afternoon, Raj. It’s Mike. Our plan right now is for the upcoming fiscal year starting May 1, what we’d like to do, and Matt kind of mentioned this in his comments, we’d like to implement a business plan that we maintain a kind of a breakeven adjusted EBITDA type of a level as we regrow the company. And in order to do that, we’ve methodically analyzed that the right spend rate is kind of in the vicinity of about \$7 million to \$8 million per annum. So call it back of the envelope, a couple of million dollars a quarter. So that’s our current plan for the upcoming fiscal year. Once Q1 rolls around in the spring, we’re looking to go back to approximately a couple of million dollars a quarter. Hope that helps.

Raj Sharma

Right. So, that would be the fourth quarter, the start of the fourth quarter, you think.

Michael Mathews

Yes, the facility – yes, correct. The facility closes in January, we would commence in the fourth quarter. That’s correct.

Raj Sharma

And what kind of an enrollment growth you think we could kind of plan for or model the \$2 million a quarter spend?

Michael Mathews

Well, what you have to realize is last year, we were generating on a quarterly basis for pre-licensure anywhere between 300 and 500 enrollments a quarter. So, when you start to do the year-over-year comparables, you have to kind of take that out of the analysis or out of the equation. So, as we enter next year, there is no reason why in the second half of the fiscal year that we can’t be increasing our enrollments on a year-over-year comparative. So, in Q3 last year, we did about 1,800 enrollments, and then in Q4, which is a softer quarter, we did about

1,500 enrollments. As we get – if we look at that comparative a year from now – we should be able to hit that or exceed those numbers.

Raj Sharma

So, the second half would be – would you aim for about 1,800 total enrollment, fourth quarter?

Michael Mathews

Yes, in that range.

Raj Sharma

Okay.

Michael Mathews

Anywhere between 1,500 and 1,800 a quarter, correct.

Raj Sharma

Got it.

Matt LaVay

And of course, there is obviously a lag between the enrollments and what happens in the student body, which is driving your revenue.

Raj Sharma

Sure.

Matt LaVay

And so by the second half of 2024, the student body as a whole will start to flip and start to grow again, and that includes what's happening in the pre-licensure business, right. So, once you get into the second half of '24, the pre-licensure wind down has largely taken place. There is still some left that becomes less of a factor in what's going on. And at the same time, the enrollments start to generate that new student body. And so that's when you start to see the inflection point of enrollments actually increasing sequentially quarter-over-quarter.

Raj Sharma

Got it. And definitely helpful. And then the surety bond reduction caused the release from the collateral, and you said as pending, liquidity – that helps the liquidity, but when do you think you should have that money back?

Michael Mathews

It's imminent.

Raj Sharma

It is imminent. Okay, great. And then just lastly on Phoenix and the four new campuses and sort of the teach-out, any indications on where we should look for revenues this year and the next year, has any of that changed?

Michael Mathews

No. Our estimates for pre-licensure, because we know precisely how many students in each of our markets will be taught out over the next 15 months to 18 months, we have a very good idea on exactly what the revenues are going to be. We are going to be in that like \$11 million range for the full year, this full fiscal year that we are currently in, fiscal 2023. And then it drops down into that \$3 million or \$4 million range in the final year, fiscal '24.

Raj Sharma

Got it. Thank you. That's it for me. Thanks a lot.

Michael Mathews

Thanks Raj.

Operator

And our next question comes from the line of Brett Reiss with Janney Montgomery Scott. Please proceed with your question.

Brett Reiss

Yes. Mike, can you hear me?

Michael Mathews

Yes, Brett. Good afternoon Brett.

Brett Reiss

Hi Mike. Hi Matt. A question on the timing and how we extricate ourselves from the leases on the pre-licensure campuses. I mean you have got long-term leases, but you can't sublet it until the teach-outs are over. What's the timing factors there?

Michael Mathews

Yes, great question, Brett. So, just so you guys are aware, we typically, historically, for the campuses, we have had leases that are ranging in kind of the 7-year level, in the 7-year duration. And all the leases, once our teach-out is done, we'll be at least a couple of years in. So, we really only have about 5 years to go with those leases. We are actively working with our commercial realtors, Colliers International, huge firm with local commercial realtors in each of our local areas. We have already had a good amount of activity in terms of showing these campuses to other nursing schools. And so what we are looking to do, Brett, is to actively sublet space in all of our pre-licensure locations by approximately January of next year, January of 2024, so about a year from now. Our teach-out, it ends in Phoenix in April of '24 and in the summer of 2024 in these other locations. Now, one

thing to be aware of is that, at this point, we are planning to keep our Phoenix campus location. And we are going to convert that building, that suite, into a USU nurse practitioner immersion space because we have decided to no longer conduct immersions in other locations and no longer conduct them in San Diego. All of our immersions in the future with thousands of students are going to be in our Phoenix campus. So, we can very easily convert that location and utilize that space as the USU business continues to grow. So, we really only have to worry about our other four locations. And I am pretty confident we will have the sublets done by the time our teach-outs are over in each of those four locations.

Brett Reiss

Mike, in the four locations other than Phoenix, are you paying at or below market rents right now, do you know?

Michael Mathews

Yes. I mean our – the leases in each of our locations were all in kind of the low-20s per square foot. So, it was a fair commercial deal at the time for each of those, and that's kind of the market rate.

Brett Reiss

Okay. You have touched on this, but I just want to make sure I think I heard it. The release of the \$1.5 million of the \$5 million restricted cash, the balance of that release is imminent. Did I hear you say that in response to one of the analyst questions?

Michael Mathews

No. The question was, the \$1.5 million that has been agreed to be released by the surety bond provider, when is that going to happen, and I said that was imminent. So, that question was regarding the \$1.5 million.

Brett Reiss

Alright. What has to happen for the balance to be released?

Michael Mathews

That is a very good question. We – once earnings is over with today, we are looking to have some subsequent conversations with the bond provider, now that they have seen our results for the quarter. And we are hopeful that we can convince them to release some more. But I would prefer not to, at this point, indicate either way of how much or when that might happen.

Brett Reiss

Okay. And last one for me. The two qualified investors that invested \$5 million apiece in these convertible type notes, what is the status of that investment? And are these people working with you? Are you in compliance with your obligation to them? Could you talk to us a little bit about that?

Michael Mathews

Sure. I don't – this is a convertible note that doesn't have any covenants as it relates to that. So, there is no compliance issue whatsoever.

Brett Reiss

Okay.

Michael Mathews

And we are making the requisite interest payments each month as required. And the convertible instrument is currently priced at \$1 a share. So, they are unlikely, obviously, at this point to convert. So, that's really it.

Brett Reiss

Great. Thank you for taking my questions.

Michael Mathews

Thank you, Brett. Have a good afternoon.

Operator

[Operator Instructions] Our next question comes from the line of Mike Grondahl with Northland Securities. Please proceed with your question.

Mike Grondahl

Hey guys. Thanks. And Michael, you said that you got a couple of term sheets on an AR facility earlier, but you didn't like the terms. Any sense of kind of the range of terms you might be looking at now?

Michael Mathews

Mike, just to be clear, the terms that we received from a commercial perspective, there is a pricing/cost perspective. They were probably okay. They were probably acceptable to the company. But because of pre-licensure at the time, the pre-licensure probation caused them to add some regulatory covenants that the company was uncomfortable with. We are not – we don't have to worry about that now because of course, we just announced the teach-out and it's a smooth 1-year to 1.5-year teach-out process. And so that regulatory concern now has been mitigated. So, it was more about covenants as opposed to pricing.

Mike Grondahl

Got it. Okay. And assuming you get this new AR line and assuming you resume this marketing spend and that grows enrollment and revenue growth, what is the rough level of revenue you need to achieve to be EBITDA positive and to kind of begin to throw off cash, if you will?

Matt LaVay

Well, so that's an interesting question because we are EBITDA positive now because of the restructuring and all of that, that we put in place. So, once we put the marketing plan in place, it would be possible with the AR facility. We will be ramping spend at a rate that keeps us at that adjusted EBITDA breakeven-ish type of level. So, there isn't a magical revenue number in the future that would cause that inflection point. The idea is we maintain the place that we are. We don't get ahead of ourselves with spend as we ramp up the marketing spend. Hopefully, that makes sense to you.

Mike Grondahl

Yes, it does. I mean I guess I am just trying to figure out steady state, what does the company look like in a couple of years? Is it – you are spending these marketing dollars to drive breakeven adjusted EBITDA. When does that flip, if you will, and when do we get more?

Matt LaVay

Yes. So, the way you just described it is the way that we think about it for the next couple of years, okay, so fiscal '24 and '25. And the reason that those years were kind of staying at that flatter adjusted EBITDA levels is because we still have the pre-licensure teach-out as we are ramping up the marketing spend and starting to grow the online business again from where it is today. Once we get into after fiscal '25, the pre-licensure drag goes away entirely, and you see the full effects of the growth from the new enrollments in the online post-licensure programs. So, I would start thinking about kind of that larger adjusted EBITDA number in '25 and into '26 and '27.

Mike Grondahl

Fair. Okay. Thanks guys.

Michael Mathews

Have a good afternoon Mike. Thank you.

Operator

And we have reached the end of the question-and-answer session. I will now turn the call back over to Michael Mathews for closing remarks.

Michael Mathews

Thanks everyone for participating in today's call. We look forward to speaking with you again in our third quarter earnings call in March of 2023. Thank you. Have a good afternoon.

Operator

And this concludes today's conference and you may disconnect your lines at this time. Thank you for your participation.