

Aspen Group, Inc. (NASDAQ:[ASPU](#)) Q3 Fiscal 2021 Earnings Conference Call

March 16, 2021 4:30 PM ET

Company Participants

Michael Mathews - Chairman & Chief Executive Officer

Robert Alessi – Interim Chief Financial Officer and Chief Accounting Officer

Conference Call Participants

Darren Aftahi - ROTH Capital Partners

Austin Moldow - Canaccord Genuity

Rajiv Sharma - B. Riley Securities

Michael Pochucha - Northland Capital Markets

Jacob Stephan - Lake Street Capital

Jeremy Hamblin - Craig-Hallum

Operator

Good afternoon. Welcome to Aspen Group's Fiscal Year 2021 Third 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 anticipated impact on the pre-licensure unit following the implementation of double cohorts in the main Phoenix campus and of the expansion of the pre-licensure program in new metros, including future revenue growth and operational scale; the expected launch date of the initial core program semester in Nashville; the expected timing and geography of further campus expansion; course starts and revenue growth forecast for the fourth fiscal quarter of 2021; our expectations regarding future course start behavior; expected operating losses of new campuses and the expected time they will achieve profitability; expected increase in gross margins in future quarters; revenue estimates and trends; G&A trends; our estimates concerning bookings, LTV, MER and ARPU; our estimates concerning and experience with our accounts receivable; our expectations regarding EPS loss and Adjusted EPS loss in the fourth fiscal quarter, 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, 2020 and the prospectus supplement dated August 31, 2020, 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 Form 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 a revenue increase of 33% year-over-year, in line with our guidance previously shared on our last earnings call. Quarterly bookings increased 24% year-over-year. We ended the quarter with nursing students making up 87% of our total active student body, up from 84% in the prior-year period.

While we delivered strong enrollment growth in every unit of the Company, the primary growth driver in the quarter was Aspen University's Nursing + Other unit, led by our Doctoral programs. United States University, or "USU", also saw outstanding enrollment growth in the quarter with a 43% increase year-over-year, primarily from MSN-Family Nurse Practitioner (or FNP) enrollments.

Aspen's Pre-Licensure BSN unit, our highest LTV nursing licensure degree program, continues to benefit from several favorable macro trends as these students are primarily millennials looking to enter the rapidly growing nursing profession. Demand in Phoenix has exceeded our expectations. Because we do not want to have a large waiting list, we made a conscious decision to temper enrollment growth for first-year pre-requisite students at our Phoenix pre-licensure campuses, which have a full pipeline of first-year students. This moderated the unit's enrollment growth in the quarter to 15%.

Looking into the second half of the calendar year, there are two factors that will have a positive impact on the pre-licensure unit. One is the implementation of double cohorts at our main Phoenix campus to meet demand for our pre-licensure program. As of the February 2021 semester start, Aspen University implemented its first double cohort enrollment. Given two cohorts entered the core BSN-PL program at the Main Campus, and another cohort entered the program at the HonorHealth campus, that equates to an increase of over 70% from the prior year period for the Phoenix metro core program.

Let me provide further detail on the impact of double cohorts. Aspen University has six semester start dates per annum at both campuses in Arizona. With the introduction of double cohorts at its main campus in Phoenix, the university is now on track to annually start over 500 students at an annual rate of approximately \$20,000 in the final two-year core program, up 67% from the prior run rate for both students and revenue. This excludes revenues from over 1,500 first-year online pre-requisite students currently enrolled.

The double cohorts for the core BSN-PL program in the Phoenix metro, and the subsequent impact on our revenue stream for this profitable, high LTV degree program demonstrates the potential scale of our model.

The second factor is the expansion of the pre-licensure program in new metros. In the second half of 2020, we launched new pre-licensure programs in Austin and Tampa, where as we did with both our Phoenix campuses, we experienced start-up operating losses as the campuses opened. As enrollment in these two programs grows, we will see the double benefit of higher revenue growth and operational scale. The most recent expansion in our pre-licensure program is the launch in Nashville, Tennessee, where we began marketing to first-year pre-requisite students earlier this month. We're targeting to begin our initial core program semester in Nashville in August 2021, in clinical partnership with NorthCrest Medical Center, Trust Point Hospital, and Nashville General Hospital.

Following the Nashville opening, we will have successfully launched five locations in four states since mid-2018. Aspen Group's strategic roadmap targets having 12 operational BSN Pre-licensure locations throughout the western and southern United States by 2025. The majority of Aspen University's Pre-Licensure students are part-time or full-time working adults, and we strive to cater to their needs. We offer the majority of our BSN Pre-Licensure program curriculum online, together with an on-campus applied learning component offered with both day and night/weekend program options, which differs from the traditional on-campus, five-day-a-week, day program format. In addition to affordable tuition and flexible payment options, the ability to work while attaining a life-changing degree makes our program very popular.

As I mentioned earlier, a factor in our growth this quarter was strong enrollment at USU, primarily from FNP students, all of whom are Registered Nurses or RNs. The FNP enrollment growth is especially notable, given the dramatic increase in nurses' workloads due to the acceleration of COVID-19 infection rates throughout the quarter.

That said, with RNs currently representing 69% of the Company's total student body, we did see the headwinds these students faced late in 2020 and the first few months of 2021 due to 'COVID Wave 2' which led to lower course starts than originally forecasted at both universities in the third quarter. Our BSN-Pre-Licensure students of course are not yet nurses and this program was unaffected. As stated in our last earnings call, we anticipated this effect would have an impact on class starts within our student body of predominantly working nurses. We expect that to continue through the balance of this fiscal year.

Given that our predominantly RN student body has been especially overwhelmed over the past several months, we wanted to understand the reasons for their decisions to reduce their pace of class starts and found that they fell into four categories:

First, they rescheduled upcoming course registrations to a later date,

Second, they made requests for a temporary leave of absence,

Third, they requested to delay their placement into their preferred clinical location timed with that facility accepting new in-person students again, and

Fourth, they made course or program withdrawal requests due to family emergencies, pressures at work or emotional distress and lack of time.

As a result, in addition to typical seasonality in the third quarter, which includes the November and December holiday months, Aspen University saw approximately 4% less course registrations than expected in our Aspen Nursing + Other unit. This equates to approximately \$110,000 of reduced revenue per month relative to the Company's historical performance. USU's MSN-FNP program also saw a similar course start decline of approximately 4% in the quarter relative to the Company's historical performance, which equates to approximately \$60,000 of reduced revenue per month.

COVID 'Wave Two' has continued into the current fourth fiscal quarter ending April 30, and as a result, we are forecasting a decrease of approximately 4.5% for course starts than seasonally expected in our Aspen Nursing + Other unit and USU's MSN-FNP program. Consequently, we anticipate year-over-year revenue growth to be in the range of 31% - 33% or \$18.4 - \$18.7 million. This is compared to the Company's previous forecast of 36% growth or \$19.1 million.

We welcome the news that vaccines should be available to all adults by the end of May, assuming the vaccine rollout goes as scheduled. By the end of our fourth fiscal quarter, we anticipate the course start behavior of our predominantly RN student body to return to historical levels, which would be during our first fiscal quarter ending July 31. Outside of the lower course start activity due to COVID, our enrollments and operating metrics continue to outperform the industry.

Our proprietary EdTech platform consistently yields industry-leading marketing metrics. Our technology is a key differentiator in the for-profit education sector and is the cornerstone of our model that enables our low Customer Acquisition Cost, which we refer to as cost per enrollment or CAC. Our proprietary enrollment CRM is perhaps the most advanced system in the higher education industry. Using a real-time algorithm, the system prioritizes leads in real-time for our enrollment advisors and notifies them where that individual is in the enrollment process and recommends the next step. Our enrollment advisors therefore always have a prioritized database to maximize lead to enrollment conversion rates. This is one of the key reasons why our CAC remains the lowest in the industry.

As I previously stated, our overall pre-licensure enrollment growth was restrained to 15% due to our decision to flatten first year enrollments in Phoenix. This in turn moderated our YoY increase in bookings and average revenue per enrollment, or ARPU. As a result, bookings rose 24% to \$33.0 million, while ARPU increased 2% to \$15,513. The company's weighted average CAC increased 19% on a sequential basis to \$1,365, as expected, given we launched marketing in two new metros and materially increased marketing spending the past two quarters and there has historically been a one to two quarter lag effect in increased marketing investment to revenue.

That said, the marketing efficiency ratio (or MER), representing revenue-per-enrollment over cost-per-enrollment for both of our universities, remained above 11 times.

I'll complete my remarks today by discussing our BSN Pre-Licensure expansion and the short-term effect that it had on our EBITDA margin in the quarter. As we've previously stated, our strategic plan is to open two new locations per year, one in the Spring and one in the Fall. Last Spring, we encountered a delay in the regulatory approval process in Florida related to COVID restrictions. This delay meant that we launched marketing and began staffing in both the Tampa and Austin metros within about one month of each other.

Consequently, this was our first full quarter of marketing in both new locations with minimal start-up revenues, so it caused an aggregate operating loss in those new metros of just over \$800,000. As we've previously disclosed, each new location experiences operating losses of approximately \$750,000 - \$1 million in the first calendar year of operation. So we do anticipate that these new campuses will begin generating profit in year two, based on the precedent that was set in Phoenix.

The good news, as Rob will discuss momentarily, is the fact that our two more mature pre-licensure campuses in Phoenix, which have now been open for just over 2 ½ and 1 ½ years respectively, delivered net income and EBITDA of \$1.8 million or a 52% margin in the quarter. Despite the operating losses in Austin and Tampa, the overall pre-licensure business still delivered a 28% EBITDA margin in the quarter. This again demonstrates the leverage of our pre-licensure business, and why we prioritize these strategic investments.

Before I complete my remarks, I'd like to thank our former CFO, Frank Cotroneo, for his hard work and contribution to Aspen Group over the last 15 months. The Company has greatly benefited from

Frank building an outstanding finance and accounting team and helping to upgrade the Company's financial processes and infrastructure. The Company is fortunate to have Rob Alessi as our Chief Accounting Officer. Rob is the interim head of our finance team and brings a broad base of experience, including "Big 4" public accounting, internal auditing, and public company controllership. Rob, with my oversight, is performing the chief financial officer duties while we conduct a CFO search. We have interviewed several excellent candidates thus far and hope to finalize our decision by the end of our fiscal year. Now I'll turn the call over to Rob to review our financial results for Q3. Please go ahead Rob.

Robert Alessi

Thank you Mike, and good afternoon everyone. I will begin with a review of our financial results for the 2021 fiscal third quarter, followed by our expectations for the upcoming fourth quarter.

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Total revenues for the third quarter were \$16.6 million, up 33% versus the year-ago period. Our highest LTV businesses, Aspen University's Pre-Licensure BSN program and USU (primarily FNP program), now account for 51% of our consolidated revenue. Aspen University's traditional post-licensure online nursing + other unit, which includes our growing Doctoral programs, contributed the remaining 49% of total Company revenue in the quarter.

As Mike indicated, our revenue growth continues to be driven by new student enrollments in our highest LTV programs, which increased overall by 22% to 2,129. Aspen University generated 1,593 new student enrollments, up 16% year-over-year, attributable to strength in its Doctoral and Nursing + Other degree programs. United States University delivered 536 new student enrollments, a 43% increase year-over-year, primarily from MSN-Family Nurse Practitioner or FNP enrollments. The FNP enrollment growth is especially notable, given the demands on nursing professionals on the front lines of the pandemic.

As Mike explained earlier, Aspen University intentionally slowed year-over-year enrollment growth at its Phoenix pre-licensure campuses. These campuses currently have a full pipeline of first-year online pre-requisite students, so this decision moderated pre-licensure enrollment growth in the quarter to 15%.

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Gross profit and gross margin were \$8.7 million and 52%, respectively, versus \$7.1 million and 57%, respectively, in the year ago period.

Overall instructional costs were \$3.9 million or 24% of revenue, up from \$2.6 million or 21% of revenue in the year ago period. The increase in instructional costs as a percent of revenue was primarily due to the hiring of full-time faculty for the pre-licensure program at the main Phoenix campus to support double cohorts that began in February, as well as faculty hiring at the new campuses in Tampa, FL and Austin, TX.

Total marketing and promotional costs for the third quarter were \$3.6 million or 22% of total revenue, up from \$2.5 million or 20% of revenues in the year ago period. The increase of marketing as a percentage of revenues is a result of the planned increase in ad spend in Fiscal Year 2021, targeted primarily to our highest LTV programs, combined with growth spending in our two new pre-licensure metros.

General and administrative costs for the quarter were \$10.6 million compared to \$8.6 million during the comparable prior year quarter, an increase of \$2.0 million or 23%. Given revenues increased year-over-year by \$4.1 million, the G&A increase of \$2.0 million continues to track against our long-term goal that G&A will grow at approximately half the rate of revenues.

From a company bottom line perspective, the total net loss for the third quarter is (\$2,815,266) or net loss per basic and diluted share of \$(0.11), compared to a loss of (\$2,281,052) or net loss per share of \$(0.12) in the prior year quarter.

Adjusted net loss for the third quarter is (\$2,114,096) or Adjusted net loss per share of \$(0.09), compared to a loss of (\$923,719) or Adjusted net loss per share of \$(0.05) in the prior year quarter.

From a unit perspective, Aspen University's net income for the quarter was \$1.4 million versus \$1.3 million in the prior-year period. USU's net income was \$0.3 million versus net income of less than \$0.1 million in the prior year quarter. Finally, AGI incurred a net loss of (\$4.5) million for the third quarter, compared to a loss of (\$3.6) million in the prior year quarter.

With our net loss of \$(2.8) million, our Adjusted EBITDA, including approximately \$800,000 in growth capital expense related to ramping up the Austin and Tampa campuses, was a loss of \$(0.9) million or (5%) margin in the third quarter as compared to net loss of \$2.3 million and Adjusted EBITDA of \$0.2 million or 2% margin in the prior year quarter.

From a unit perspective, Aspen University generated net income of \$1.4 million and Adjusted EBITDA of \$2.5 million in the third quarter. Aspen's pre-licensure BSN program generated net income of \$1.0 million and an Adjusted EBITDA margin of 28%, as the unit delivered \$1.0 million of the \$2.5 million Adjusted EBITDA generated at Aspen University. The pre-licensure program in Phoenix generated net income and Adjusted EBITDA of \$1.8 million or 52% margin, while the two new metros, Austin and Tampa, incurred a net loss and Adjusted EBITDA loss of (\$0.8 million) in the quarter.

USU generated net income of \$0.3 million and Adjusted EBITDA of \$0.5 million in the third quarter. Finally, AGI corporate incurred a loss of \$(4.5) million and an Adjusted EBITDA loss of (\$3.8 million) in the quarter.

Shifting to our fourth quarter forecast, as Mike indicated, we anticipate year-over-year revenue growth to be in the range of 31% - 33% or \$18.4 - \$18.7 million. This is compared to the Company's previous forecast of 36% growth or \$19.1 million.

From a bottom line perspective, we expect our net loss per share to be in the range of \$(0.11 – 0.13) cents and Adjusted EPS loss in the fourth quarter to sequentially improve from \$(0.09) cents to \$(0.04 – 0.06) cents. Note that the EPS loss we're estimating in Q4 includes approximately \$(0.04) cents for the severance and stock compensation expense related to Frank Cotroneo's separation agreement.

Now I'd like to provide an update on our A/R and bad debt reserve. As our shareholders are aware, the increase of the Company's A/R over the last several years has predominantly been a result of our groundbreaking monthly payment plan (or MPP) which we introduced in 2014 at Aspen University and subsequently in 2018 at United States University.

In history, we've issued approximately \$70 million of credit to Aspen University's MPP students, and to date, we've written off \$631,000 or approximately 1% of that A/R. Our bad debt reserve for this A/R is currently \$2.5 million which we believe is conservative because our current collection history and analysis suggests that we will not ultimately need to write-off more than about 2.5% of that \$70 million or a total of \$1.8 million which includes the \$631,000 written off to date.

OK, now let's discuss USU's MPP Accounts Receivable, because as you likely recall, we offered nurse practitioner students a 6-year MPP plan over a two year period, from 2018 to 2019. The majority of the Company's increase of Accounts Receivable this fiscal year is related to that MPP plan. To be specific, the Company's long-term A/R during the first nine months of this fiscal increased from \$6.7 million to \$9.9 million with USU accounting for 83% of that increase. The Company's short-term A/R during the nine month period of this fiscal year increased from \$16.1 million to \$18.8 million with USU accounting for 70% of that increase.

Here's the important fact to be aware of. As I just stated, while the majority of the A/R increase for the Company in the past year plus has been through issuing credit to Nurse Practitioner students at USU. The collection history of these FNP students is tracking materially better than our collection history of Aspen University MPP students. Let me explain. From 2018 to 2019, we issued approximately \$17 million of credit to USU FNP students on the six year payment plan. We've collected to date \$8.3 million of that \$17 million, so the remaining A/R is approximately \$8.7 million.

The total student count that makes up the \$8.7 million of MPP FNP student A/R is approximately 800 students. 44% of those 800 students have graduated, while 50% remain active students today in the university, and the remaining 6% are no longer enrolled. Of those 800 students, we only have 43 students that have not made a recent monthly payment which accounts for total A/R of \$205,000 or 1.2% of the total credit issued to date. In other words, we're estimating this 6-year MPP A/R to perform materially better than Aspen's history which as I just indicated has performed well to date.

As we look back on that 6-year payment plan we offered to Nurse Practitioner students at USU, it shouldn't come as a surprise that the quality of that credit we issued is so strong, as becoming a nurse practitioner is a life changing event for these students. Their income averages over six-figures once they are employed as a nurse practitioner, which can be up to double the average income registered nurses earn in the U.S.

Moving to our liquidity position, cash used in operations for the quarter was approximately \$3.2 million versus \$1.8 million in the year-ago period. For the nine-month period, our cash used in operations is \$5.3 million or an average of \$1.8 million per quarter. As you know, our cash used from operations in a given quarter can be materially affected based on the timing and size of our semester starts.

Aspen Group ended the quarter with approximately \$10 million in unrestricted cash. Together with our unused revolver of \$5 million, we ended the quarter with approximately \$15 million of liquidity resources.

Additionally, we have \$1.3 million of Other-Current Assets on the balance sheet which represents our tenant improvement allowance that will be reimbursed upon the completion of the campus build-out. We expect the \$1.3 million to be reimbursed either by the end of this fiscal quarter or next which will increase our liquidity by that \$1.3 million.

With respect to our share count, the weighted average number of common basic shares outstanding at the end of the quarter is 24,544,334 versus 19,420,987 in the year ago quarter.

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

Question-and-Answer Session

Operator

Our first question comes from the line of Darren Aftahi with ROTH Capital Partners.

Darren Aftahi

A couple, if I may. First, Mike, your comments about core starts sort of normalizing beyond April. I'm just sort of curious what gives you confidence that's going to be the case?

Michael Mathews

Darren, we have seen an improvement so far in the month of February and in the first half of March. So assuming that improvement continues, we expect that our fourth quarter -- sorry, our first fiscal quarter will come back to a level of normalcy for registered nurses. As everyone knows, it looks like most adults have the ability to be vaccinated by the end of May. And so that's kind of right during the beginning of our first quarter.

Darren Aftahi

Got it. Fair enough. Your pre-licensure EBITDA margins, 52%, exceptionally strong. I'm curious as we think about, one, that's obviously not including double cohort. So with double cohorts, like where is the theoretical ceiling there? And then as we think about other geographies, we probably shouldn't be thinking about the business with that higher margins? Or am I mistaken in thinking that?

Michael Mathews

No. I think you're right, Darren. We're at 52% margin, but we have the advantage, of course, of having 2 campuses open in Phoenix, currently. Now we, of course, are coming into a double cohort for this quarter that we're in now. It's certainly possible that the margin could end up in the mid- to upper 50s, it's possible. I don't expect that margin to be the same in our new markets. We think that the margin will -- should be able to be definitely in the high 30s, if not in the 40s in our other markets.

Darren Aftahi

Got it. And then last one for me. The service center in Tampa, is that still on track even with Frank's departure?

Michael Mathews

Yes, it is. In fact, Rob Alessi, our Chief Accounting Officer and interim CFO, is currently in the process of relocating to Tampa, and we've made 2 recent hires in Tampa as well. So we are moving full bore with having our corporate center-based in Tampa.

Operator

Our next question comes from the line of Austin Moldow with Canaccord.

Austin Moldow

Can you talk about the cost per enrollment you're seeing at the new metros? And can you also speak to the competitive landscape you're seeing these days?

Michael Mathews

Sure. So I mean, one thing to be aware of is that when we launched Phoenix 2.5 years ago, we delivered approximately 500 enrollments in that first year in Phoenix, which was probably double or approximately double our internal forecast. The second year in Phoenix really exploded as we delivered over 1,500 enrollments in our second year of operations in the Phoenix metro, which, of course, was across 2 campuses at that point. Austin, which we began about a month before Tampa, is tracking at this point to do approximately 250 enrollments in year one, which is right on our internal forecast, given Austin is considered to be a Tier 2 sized market versus Phoenix as a Tier 1. We have every expectation that Tampa will perform similar to Austin in its first year of operations as well. By the way, we just launched marketing in Nashville a few weeks ago, and surprisingly, drove 80 leads in our first few days, and we have nearly 200 leads in our first 10 days.

So Nashville is off to a phenomenal start. So our cost for enrollment in our pre-licensure program, historically, in Phoenix, as a consequence of the explanation of enrollments I just gave you, has been

in that sub-\$500 range. In our other markets, I would probably guesstimate that we'll be closer to more of \$1,000 in our other markets. I don't think we'll be as successful as we were in Phoenix, which is in that \$500 range.

Austin Moldow

Got it. Would you be able to give an update on your enrollment advisor count and your expectations for investment there?

Michael Mathews

Yes. we increased our enrollment center at USU and in our traditional Aspen Nursing + Other unit at the beginning of the fiscal year. And those groups have remained flat for the last 6 to 9 months. The only increase in enrollment advisers has been in our pre-licensure side where we've, of course, allocated new enrollment advisers to our 3 new metro markets. So the increase has been modest, no more than 10% over the course of the year.

Austin Moldow

Got it. And last question here is, can you give a little update on your new weekend immersion locations for USU?

Michael Mathews

Yes. So we have a plan by the spring to summer that we're going to have our students have the ability to conduct their immersions in 3 locations. So one, of course, is our San Diego base, which is where all immersions have been done in history. We have completed the build-out of our new Phoenix location for weekend Immersions and is now open, and we'll be conducting our first weekend immersions in the coming weeks. And then finally, we are very, very close to having our immersion set up in Tampa. We're getting close to that location being finished. And in fact, Rob just explained that that build-out is almost done. And as it's done, we're actually going to get the \$1.3 million back again for the tenant improvement.

Operator

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

Rajiv Sharma

So I just wanted some clarification on the start-up costs, you said for this quarter were about \$800,000 for the 2 new campuses. And you expect around the same for the next quarter. And I think you also, Mike and Rob, you alluded that they are in line -- start-up costs are in line with what you earlier estimated of \$0.75 million to \$1 million in the first year. So can you clarify that, there is \$800 million this quarter and then \$800 million in the coming quarter? And is that it on the start-up costs for the two campuses?

Michael Mathews

Well, okay. So first of all, Raj, we've said many times that it takes a full 12 months for a new location to breakeven, okay? And the operating losses for our brand-new campuses are very heavily weighted

toward the first 6 months, and then the losses declined quite quickly from there on out. So understand that this quarter, we had -- our cost basis of \$800,000, was only Austin and Tampa. We're now we have started spending a few weeks ago in Nashville. So now we have 3 locations that are in that first 6-month start-up mode. So that's why we believe we'll lose about another \$800,000 this quarter because, again, we have 3 campuses that are all sort of in that immature start-up phase. But we will start earning some material revenues in our first 2 markets, which will offset the cost of the third campus opening in Nashville.

Rajiv Sharma

In the next quarter, you'll start earning on Austin and Tampa?

Michael Mathews

Yes. So we're earning revenues in Austin and Tampa in this current quarter. We've begun enrollments of first year students in both locations.

Rajiv Sharma

Got it. And then on the double cohorts in Phoenix, can you clarify the sequential quarter-on-quarter improvement in revenues from doing now -- having double cohorts to Phoenix?

Michael Mathews

Yes. So there's a three semester system for any given student. And the students, the cost of attendance for a given student over a period of a year is \$20,000 per annum over the 2-year period. So you basically would take \$20,000, divide it by three for each semester. We were in that first cohort, as we've announced, it was approximately an additional 30 students in that second cohort. So that would be the math.

Rajiv Sharma

Right. 30 times the \$20,000 divided by 3 for each semester?

Michael Mathews

Correct.

Operator

Our next question comes from the line of Mike Grondahl with Northland Securities.

Michael Pochucha

This is Michael on for Mike. Maybe first off, just on the Phoenix campuses. You continue to see the strong demand there with the first year students. Is there any plans further out to expand capacity there, so you can have more coming through the funnel?

Michael Mathews

Well, I mean, we currently have approximately 1,500 first year prerequisite students. And we -- based on a completion rate of somewhere in the vicinity of 2/3 of those students will finish all 41 credits, go ahead and pass the HESI A2 entrance exam. So our math tells us that we currently have close to 2 years' worth of potential core students at this point in the university. So that's why about 3-4 months ago, we started to slow down our marketing dollars in the Phoenix metro in order to slow down those first year enrollments. We would have to open a third location in Phoenix in order for it to be -- in order for that pipeline to get even wider. And it's something we potentially could do in the future, but it's not in our short-term plan at this point.

Michael Pochucha

Got it. And then just on Nashville. Any differences to call out in that market? Sort of size, competition, sort of student economics?

Michael Mathews

Yes. I mean, Nashville is a lot like Austin. Neither location, neither metro has any significant competition from a for-profit point of view. So those are 2 markets that, thus far, are off to a very, very strong start.

Tampa is a little more competitive. So we're spending more dollars there to achieve the same number of leads. But again, every market is a little different. And Nashville, the first couple of weeks of Nashville is extremely promising.

Operator

Our next question comes from the line of Jacob Stephan with Lake Street Capital Markets.

Jacob Stephan

So on the Nashville campus. You guys are working with more than just 1 partner, 1 clinical partner. Can you explain a little bit more around is it going to be a bigger campus? Or do you just need more capacity?

Michael Mathews

All of our campuses are pretty much similar size. We look for a location that has somewhere between 15,000 and 18,000 thousand square feet. And that gives us the ability to build a core program that's in that kind of 500 student range. Now again, in terms of our main Phoenix campus, we have a larger location than that. So that's why we're able to go to double cohorts. So I would say Nashville and Tampa and Austin, they're all going to be similar-sized markets and similar-sized programs.

Jacob Stephan

Okay. And then as far as the -- will you guys have room to expand the USU and FNP program in Nashville?

Michael Mathews

At this point, because we're going to have four locations open in the coming months, San Diego, Phoenix, Tampa and Austin, we don't have any weekend immersion plans at this point for our FNP program at USU (in Nashville). We could allocate some space to that if we'd like to in the future, but we felt like we're covering each part of the country at this point, pretty successfully.

Jacob Stephan

Okay. So just back to the CapEx a little bit, \$800,000 in this coming quarter. So just in terms of the national campus, is that more of \$1 million -- \$750,000 to \$1 million annualized run rate?

Michael Mathews

Right. And again, that wouldn't be CapEx. So that would be operating expenses that we're expecting to have with each of these new markets collectively, all opening and in an immature status at this point.

Operator

Our next question comes from the line of Jeremy Hamblin with Craig-Hallum Capital.

Jeremy Hamblin

I wanted to just follow-up a little bit on the question around investments in new campuses, obviously looking to drive your revenue base here. But in terms of thinking about the plan to expand a couple of campuses a year for the next several years and thinking ahead to fiscal '22. Given that you're going to open those 2 campuses per year and the upstart costs associated with that, it seems like maybe our expectations around adjusted EBITDA growth should probably be curved simply because of that upfront investment cost that you're going to incur which is going to impact both your instructional costs as well as your marketing promotional line items. Is that a fair assumption?

Michael Mathews

Well, I mean, what I would say is that look at the results of the pre-licensure units in totality for the quarter. The Phoenix operations delivered net income of \$1.8 million or the 52% margin as we were talking about. So we were able to overcome the \$800,000 of operating expenses in 2 new markets and still deliver a net income of \$1 million, which is a pretty respectable 28% EBITDA margin.

So I think the only reason why the losses were a little bit heavier than our original plan is simply because Florida was slightly delayed in terms of the regulatory approval this past year. And as a result, those 2 campuses are kind of layered on top of each other, which is not what we plan to do in future years.

So this is kind of a short-term blip and I think we have a good plan. We're going to try to open a new location every spring, every fall. And that's a good approach for us to be able to not suffer significant operating losses as this great business is growing.

Jeremy Hamblin

Right. But I guess on a company-wide basis, if I look at adjusted EBITDA in the quarter at \$865,000 loss or \$900,000 rounded loss in adjusted EBITDA. I guess my point or my question is that our

assumption, I guess, shouldn't be -- you've made pretty significant expansion on EBITDA, let's say, in Q4 of fiscal '20 and Q1 of this current fiscal year you're in. But obviously, we've kind of backed up as you've opened these campuses, but you're going to continue opening campuses.

So I guess what I'm just getting at, I think it's probably a fair assumption that the EBITDA growth is not going to leverage in the way that it might, as you get down the road and your total number of campuses, which has really gone from 2 to 4 and then 5 just starting up here pretty quickly, as you get closer to 9 or 10, then you'd probably start to see that leverage really flow through.

But in the near term, I guess, my expectations would be that you're going to continue to have more investment costs as you're in year 1 and 2 of these programs. Is that fair?

Michael Mathews

Yes. I mean, what I would say to you, Jeremy, is that this is a bit of a blip from an adjusted EBITDA point of view to go negative. We've been positive in previous quarters. And I would say to you that we're going to be back to the breakeven level in this current fourth quarter. So I would not expect us -- as you're forecasting the company's results in future quarters, I would not forecast negative adjusted EBITDA, no.

Jeremy Hamblin

Okay. Yes, I wasn't saying negative. It just means that there was not going to be significant growth. Okay. And then I did want to come back to your two newer markets, Florida and Texas. And you noted that Florida, in particular, is a more competitive market. I wanted to just get some color on whether or not you've seen competitors adjust their pricing models as you've moved into the market, clearly is a leader on price. And whether or not you've seen them react to your entry into those markets?

Michael Mathews

Yes, what I would say is that, again, it's really important that each market is kind of analyzed on its own because there's a whole bunch of variables involved. There's the size of the market. There's the clinical partners and our relationship with them. Who the traditional public universities are there as well as, of course, the for-profits. And Florida is kind of a unique marketplace in that if you look at the NCLEX scores and where the NCLEX exams are taken, they're primarily taken by associate level students. So there's many more 2-year associate level programs, ADN programs, that students in Florida are graduating from and then taking the NCLEX to become an RN. That's kind of an unusual market in that way.

So we've entered the market with, of course, a BSN and the cost of a BSN for us is similar to what a student would pay for a 2-year associate degree. So our challenge as we're marketing into this unique market is to say to someone, don't go to that traditional 2-year program that you're planning to go to, come to Aspen and you'll get your bachelors rather than associates, which, of course, will allow you to make higher income when you become an RN. So Florida, again, is a bit of a unique market because there are so many students that have historically entered nursing programs that are only 2-year programs.

Operator

There are no further questions. I will now turn the call back to Chairman and CEO, Mike Mathews, for closing remarks.

Michael Mathews

Thank you, everyone, for attending Aspen Group's third quarter earnings call today. We look forward to speaking to you very soon. Have a good afternoon.

Operator

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