

Aspen Group, Inc. (NASDAQ: ASPU) Fourth Quarter Fiscal 2021 Earnings Conference Call

July 13, 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

Ryan Kimbrel – Craig-Hallum

Eric Martinuzzi - Lake Street

Dillon Heslin – ROTH Capital Partners

Austin Moldow - Canaccord

Mike Pochucha - Northland Capital Markets

Raj Sharma - B. Riley

Operator

Good afternoon. Welcome to Aspen Group's Fiscal Year 2021 Fourth 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 anticipated future revenue from our Phoenix campuses, the timing for new campuses to achieve profitability, the opening of our next new campus, and our campus growth by 2025, our future growth and growth strategy, fiscal 2022 USU growth, the percentage of revenue from our campuses and USU, bookings growth in fiscal 2022, LTV, projected fiscal 2022 advertising spend, seasonality, 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 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 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 press release issued by the Company today. Please note that the press 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. After I review our fiscal 2021 results, I plan to discuss what we're calling the 'Aspen 2.0' business plan, which is our plan to deliver on the goal of achieving and maintaining profitability starting in Q4 of this fiscal year 2022.

Aspen Group exited fiscal year 2021 with solid momentum in our three business units to deliver 35% revenue growth year-over-year in the fourth quarter and 38% for the full year. Additionally, strong enrollment growth lifted bookings in the fourth quarter by 21% year-over-year. For the full year, bookings came in at \$143 million, rising 29% from last year.

Each of our three business units contributed to the fourth quarter and full-year revenue growth on a year-over-year basis. The increase in our two highest LTV programs, USU's MSN-FNP and Aspen University's BSN pre-licensure programs, were the most significant contributors, and reinforces our focused capital allocation strategy.

- Aspen online, our post-licensure degree programs for Registered Nurses, or R.N.s, looking to earn advanced degrees online, saw revenue growth of 22% in the quarter and 16% for the full year.

This business unit offers only online programs with the unique option to pay using our monthly payment program, or MPP.

- USU, which is primarily our MSN-Family Nurse Practitioner, or FNP, program, grew 40% in the fourth quarter and was a strong growth driver in fiscal year 2021, delivering a 48% increase.
- Our third business unit, the BSN Pre-Licensure program for students seeking a bachelor's degree to become an R.N., grew 70% in the fourth quarter and delivered 117% growth for the full year. This degree program is offered as a three-year hybrid online and campus-based program with an LTV of \$30,000.

The growth in our FNP and BSN Pre-Licensure programs demonstrates why we prioritize investing in these business units. Strong enrollment at the USU business unit, primarily from FNP students who are RN's, was boosted by increased demand for this valuable degree that would allow these newly licensed nurses to change jobs from the front lines in hospitals and accept positions in private clinics and physician groups.

The BSN Pre-licensure program also saw great demand as millennials and working adults laid off during COVID sought degrees in professions that brought job security and a path to career advancement.

Our fourth quarter net loss was approximately (\$2.3 million) and Adjusted EBITDA was \$0.6 million, and for the full year, we lost approximately (\$10.4 million) and produced Adjusted EBITDA of \$1.3 million. The decrease from the prior year periods is primarily due to spending related to launching our Pre-licensure business into three new metros throughout the course of the fiscal year.

As I stated previously, Aspen Group's growth strategy rests primarily on growing our highest LTV degree programs. The most significant lever of growth in this strategy is opening new BSN Pre-licensure campuses, as they deliver the highest LTV of all our programs.

Let me take a moment to explain how the BSN Pre-Licensure business unit, with its significant contribution to our top-line growth, is an enabler of tremendous operating scale over time. As of next quarter, we will be operating five Pre-licensure campuses. We have two Phoenix campuses – one has been open for three years, which we call our "Main" Phoenix campus, and the second, smaller campus embedded in the HonorHealth hospital system, has been open for two years.

In fiscal 2021 we added a campus in Austin, Texas, which started core classes last September, and Tampa, Florida, which had its first core class start last November. Finally, Nashville will have its first core class start next quarter.

There are two elements to the BSN Pre-Licensure business unit's operational leverage:

First, opening new campuses – Again, this is our highest LTV degree program. As we open new campuses, this high growth lever increases its revenue contribution more rapidly than our other business units.

Second, new campuses turning profitable – After about six quarters, a campus typically becomes breakeven, covering its costs of operations, then begins to contribute to profitability every quarter going forward.

Let's look at this a little more closely. In the fourth quarter, the BSN Pre-Licensure unit generated net income of \$0.8 million and adjusted EBITDA of \$0.9 million for a 24% margin. Because of the upfront "growth spending" to launch three new metro locations, aggregate net income for this unit in the fourth quarter remained flat year-over-year. For the full year, the unit's net income grew 82% to \$3.9 million and the unit delivered a 29% adjusted EBITDA margin.

Again, this reflects six to nine months of growth spending from increased marketing spend, instructional costs, and G&A. With only two profitable campuses and three still in the early quarters that are not yet generating sufficient revenue to fully cover their costs, this unit drove net income on an annual basis to the tune of almost \$4 million dollars.

Most of the campus start-up costs occur in the first three quarters of operations, and then decline each quarter until achieving breakeven in the sixth quarter. Based on our forecast, Austin and Tampa are expected to be break even in the first quarter of fiscal year 2023 and achieve profitability by mid fiscal 2023. Nashville is anticipated to be breakeven in the fourth quarter of fiscal year 2023 and achieve profitability in early fiscal 2024. By this time next year, of our existing campuses, we will have two that are profitable and two covering their operating costs. Only one of the current campuses will still be incurring losses, but a lower level than today. So that's the profitability perspective for the next year for our Pre-licensure campuses.

Because the demand in Phoenix has continued to exceed our expectations, in fiscal 2021 we implemented a double cohort at our Main Phoenix Campus. So, every semester now, two cohorts enter the core program at the Main Campus, and another cohort enters the program at the HonorHealth campus.

By implementing double cohorts at our Main Phoenix campus, the capacity in the Phoenix metro for our final 2-year core Pre-Licensure program has grown to approximately 500 students per year or 1,000 of course over two years. We target to enroll an aggregate of 1,650 first-year pre-requisite students, as that's when we consider the pipeline to be full. On average, two-thirds of first-year students, or about 1,000 of the 1,650 students are projected to matriculate to the final 2-year core program, thereby producing two years of final 2-year core students.

We're forecasting to hit the 1,650 first-year student count in the coming months and plan to stabilize at this level, as we currently do not have plans to expand our capacity in Phoenix beyond the 500 core students per year. Consequently, we're proactively reducing new student enrollments year-over-year in the Phoenix metro from approximately 1,600 last year to approximately 1,000 this year.

However, it's important to note that the additional class starts from double cohorts will be a significant driver of revenue growth in fiscal 2022, in fact we're estimating total revenues in the Phoenix Pre-Licensure metro to rise to approximately \$18 million this year.

The USU business unit, which is primarily the Family Nurse Practitioner degree – our other high-LTV program – has been an excellent business with fantastic growth and is now significantly profitable. Our results reflect how prudent we were in acquiring USU in December 2017 for less than \$10 million. At the time, it was relatively small and losing money. It is now a valuable, profitable asset. USU, in fact, delivered nearly \$20 million of revenues in Fiscal 2021. And USU generated net income of \$2.9 million and produced \$3.6 million of Adjusted EBITDA or an 18% margin in fiscal 2021. The continued development of this business unit will be a growth driver this year, and we anticipate further improvement in profitability. In the fourth quarter, the FNP and Pre-licensure programs together contributed 51% of revenue up from 46% in the fourth quarter last year.

As these business units grow, their percentage of revenue will continue to grow, increasing their contribution to the bottom line as well.

Before I discuss our business plan for fiscal 2022 and introduce guidance for next year, I'd like to review the marketing efficiency ratios of our businesses to provide insight as to how we developed the business plan.

First, our legacy business, what we call Aspen Nursing + Other, which is primarily our fully-online RN to BSN and MSN programs, delivers an LTV of \$7,350 per enrollment and our cost-of-enrollment (or COE) is projected to be \$1,400 in fiscal 2022.

Therefore, for every dollar we spend in advertising we generate just over 5 dollars of revenue. Excellent business, but significantly less efficient than our two higher LTV businesses.

Our second business, USU, specifically the FNP program, delivers an LTV of \$17,820 per enrollment and we're projecting a COE this fiscal year of \$1,500. So, for every dollar we spend in advertising for the FNP program, we generate nearly 12 dollars of revenue. So USU is over double the efficiency of our legacy business.

Finally, our BSN Pre-licensure program in the Phoenix metro has been the Company's 'superstar' from an efficiency standpoint. Over the past three years, our COE has been no more than \$500. So with an LTV of \$30,000, that means for every dollar we spend in advertising in the Phoenix metro, we generate an unbelievable 60 dollars of revenue. That's nearly 12 times more efficient than our legacy business.

As mentioned, the Phoenix metro is nearing capacity today, so we will reduce spending in that metro and focus growth spending to our three new metros; Austin, Tampa and Nashville.

These markets are what we call Tier 2 markets, as the metro populations are in the 2 – 3 million range vs. Phoenix's 5 million. Consequently, we're projecting our COE in these markets to be in the \$3,000 range for fiscal 2022, and perhaps over time decrease to the \$2,000 COE range. Even at a \$3,000 COE, given an LTV of \$30,000, that delivers 10 dollars of revenue for every dollar spent in advertising, which is similar efficiency as the USU FNP business.

With that as a backdrop, we are introducing today a business plan that we are calling 'ASPEN 2.0.' ASPEN 2.0 is designed to deliver maximum efficiency with the goal of generating profitability and positive cash flow by Q4 of fiscal 2022. To deliver on this goal, we will focus our growth spending against our highest efficiency businesses and for the first time decrease spending in our lowest efficiency unit.

To be specific, we plan to reduce our year-over-year advertising spend rate in our Aspen legacy business by \$1.3 million, while increasing our spend at USU by \$900,000. In our BSN Pre-licensure business, we will reduce spend in the Phoenix metro to a maintenance spend of approximately \$500,000 for the year, and direct significant growth spending to the three new metros by allocating a budget of \$2.4 million.

The net effect of all these efficiency decisions results in an advertising spend increase year-over-year of only \$1.6 million or only 13%, which will translate to our advertising spend declining to approximately 17% of revenue in fiscal 2022, down from 19% in fiscal 2021.

Since much of the increased growth spending is in the three new Pre-licensure metros with higher COE's, that will translate to overall enrollments for the Company to be relatively flat year-over-year, but because these enrollments are in the highest LTV businesses, it will translate to an increase of bookings year-over-year of 6%, from \$143.4 million to \$151.3 million. In other words, this business plan continues to set the company up for consistent, sustained growth in the coming years.

As stated in the press release today, we introduced fiscal 2022 guidance for revenue, GAAP EPS, Net income (loss), EBITDA and Adjusted EBITDA. We anticipate the revenue growth rate for fiscal 2022 to be in a range of 25% to 29% year-over-year, which will deliver significant improvement in both GAAP EPS and EBITDA. In fact, we are forecasting an over \$5 million or over 90% improvement year-over-year on the EBITDA line, which at the midpoint of our revenue guidance would deliver leverage of nearly 30% for the year. In addition, we are forecasting full year Adjusted EBITDA for Fiscal 2022 in a range of \$2.0 to \$4.0 million.

Achieving these projections is based upon 1.) driving maximum efficiency from the Aspen 2.0 business plan just outlined, and 2.) opening one new campus timed at the end of fiscal year 2022.

Specifically, next spring, we are targeting a Pre-licensure launch in a Tier 1 metro market, a market which is larger than the Phoenix metro area.

And as mentioned earlier, the ASPEN 2.0 business plan gives us a clear line of sight to GAAP profitability and positive cash flow in the fourth quarter of this fiscal year 2022.

We anticipate the typical seasonal cadence to our business, with Q2 and Q4 our strongest quarters and Q1 and Q3 seasonally slower quarters. Rob Alessi will provide a detailed review of the fiscal 2022 guidance in his section to follow.

This plan gives us a clear line of sight to profitability, reduces our cash burn, and gets us to positive cash flow by fiscal year end while continuing to enjoy growth rates significantly above our industry peers. It also assures that we have sufficient liquidity to achieve our expansion goals.

This year, we look forward to continued success in growing each of our three business units. With our three new Pre-licensure locations off to a great start, and the launch of double cohorts in Phoenix, we look forward to achieving a year of solid performance.

We have built relationships with the Department's of Education and Board's of Registered Nurses in four rapidly growing states, as well as the largest healthcare and hospital organizations in some of the fastest growing metros in the country. These relationships are important assets to our business. Our proprietary tech-stack and CRM system are competitive differentiators that lower our enrollment costs, which we pass on to our students in lower tuition rates and flexible payment options. These features, in addition to the ability to work while attaining a life-changing degree, make us very popular with students. These are all valuable assets to our long-term growth plan to become an industry

leading nursing school with affordable, convenient degree programs that enable working adults to achieve their career goals.

Aspen Group's strategic roadmap targets having 12 operational BSN Pre-Licensure locations throughout the western and southern United States by 2025, and we remain committed to this goal.

Finally, I couldn't be more excited to announce the Company has appointed Matthew LaVay as its Chief Financial Officer, effective August 16th. The Company conducted an extensive search and Matt frankly was well above and beyond any candidate we interviewed. His career is a series of growth successes, both on the public and private side, and his experience in the education, financial services and technology fields couldn't be a better fit for Aspen Group's strategic roadmap.

I'm looking forward to working hand-in-hand with Matt in the coming years, as we have a lot to accomplish and much shareholder value to drive. The probability of achieving our long-term goals has no doubt improved with Matt taking the helm as CFO.

I will now hand the call over to Rob to cover the details of our financial results and fiscal 2022 guidance.

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 fourth quarter, highlight a few balance sheet items, and finish with our outlook for the fiscal year 2022.

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In my comments on the quarterly results, I will refer to the quarter that ended on April 30, 2021. All comparisons are to the prior year's fourth quarter ended April 30, 2020, unless otherwise stated.

Total revenues were \$19.1 million versus \$14.1 million in the year-ago quarter. Revenue from our highest LTV businesses, Aspen University's BSN Pre-Licensure program, and USU (primarily the FNP program) accounted for 51% of our consolidated revenue. Aspen University's traditional post-licensure online nursing + other unit, in addition to our growing Doctoral programs, contributed the remaining 49% of total Company revenue in the quarter.

For Fiscal year 2021, total revenues increased 38% to \$67.8 million, compared to \$49.1 million in the prior year. AU's BSN Pre-Licensure program and USU accounted for 50% of the Company's full year consolidated revenues.

Revenue growth in the quarter was supported by strong new student enrollments growth, which increased overall by 23% to 2,182, reflecting strong enrollment growth in our highest LTV programs. Aspen University generated 1,593 new student enrollments, up 19% year-over-year, boosted by strength in its Doctoral and Nursing + Other degree programs. United States University delivered 589 new student enrollments, a 36% increase year-over-year, primarily from MSN-Family Nurse Practitioner or FNP enrollments.

As Mike has stated, Aspen University has begun to intentionally slow year-over-year enrollment growth at its Phoenix pre-licensure campuses, which had the effect of moderating pre-licensure enrollment growth in the quarter. These Phoenix campuses currently are nearing a full pipeline of first-year online prerequisite students.

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Gross profit and gross margin were \$9.9 million and 52%, respectively, versus \$8.4 million and 59%, respectively, for the year-ago quarter.

For Fiscal Year 2021, gross profit increased by 28% to \$36.9 million or 54% gross margin versus \$28.9 million or 59% gross margin in the prior year.

Overall instructional costs for the quarter were \$4.6 million or 24% of revenue, up from \$2.7 million or 19% of revenue. For the full year, instructional costs were \$15.3 million or 23% of revenue, up from \$9.7 million or 20% in the prior year. The increase in instructional costs as a percentage 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 fourth quarter were \$4.1 million or 22% of total revenue, up from \$2.7 million or 19% of revenue. Marketing and promotional costs for fiscal year 2021 were \$14.2 million or 21% of total revenues, up from \$9.5 million or 19% in the prior year. The increase of marketing as a percentage of revenue results from the planned increase in ad spend in Fiscal Year 2021, targeted primarily to our highest LTV programs, combined with growth spending in our three new pre-licensure metros.

The quarter's general and administrative costs were \$11.2 million compared to \$7.7 million during the comparable prior-year quarter. The quarterly increase in G&A is primarily due to higher headcount and the related increase in compensation and benefits expense, which includes stock-based compensation expense, to support the growth of the business, new campus expansion costs of approximately \$1.0 million at Aspen University, and recruiting fees. In connection with the resignation of the former Chief Financial Officer, the Company incurred non-recurring cash severance costs of \$0.3 million and accelerated stock-based compensation expense of approximately \$0.6 million related to the accelerated vesting of RSUs and options.

For Fiscal Year 2021, general and administrative costs were \$41.9 million or 62% of revenue compared to \$30.3 million or 62% of revenues during Fiscal Year 2020, an increase of \$11.6 million, or 38%. Please note that included in our full year G&A costs are \$2.4 million non-recurring items. The year-over-year increase is primarily due to the factors described previously in the quarterly increase as well as \$1.2 million of accelerated non-cash stock-based compensation amortization expense for the \$9 and \$10 tranche RSU price vesting.

Total net loss was (\$2.3 million) or net loss per basic and diluted share of \$(0.09), compared to a loss of (\$664,294) or net loss per share of \$(0.03) in the prior-year quarter. For Fiscal Year 2021, total net loss was (\$10.4 million) or net loss per basic share of (\$0.44) versus a loss of (\$5.7 million) or (\$0.29) in the prior year period.

From a unit perspective, Aspen University's net income for the quarter was \$1.4 million versus \$1.9 million in the prior-year period. USU's net income was \$1.0 million versus net income of \$595,000 in the prior-year quarter. Finally, AGI incurred a net loss of (\$4.7) million for the quarter, compared to a loss of (\$3.2) million in the prior-year quarter.

For Fiscal Year 2021, AU generated \$7.3 million of net income and USU generated \$2.9 million. AGI corporate incurred a net loss of (\$20.7 million) for Fiscal Year 2021.

Consolidated EBITDA for the quarter was (\$1.4 million) as compared to EBITDA of \$211,000 in the prior year period. Fourth quarter EBITDA period-over-period for each of the three units was as follows:

- Aspen University - \$2.2 million compared to \$2.4 million
- USU - \$1.1 million compared to \$619,000
- AGI – (\$4.7 million) compared to (\$2.8 million)

Consolidated EBITDA for fiscal year 2021 was (\$6.0 million) as compared to (\$1.6 million) in the prior year period. AU generated EBITDA of \$9.5 million, USU generated EBITDA of \$3.1 million, and AGI corporate incurred EBITDA of (\$18.6 million) in fiscal 2021.

Consolidated Adjusted EBITDA was \$639,152 compared to Adjusted EBITDA of \$1.4 million in the prior-year quarter.

From a unit perspective, Aspen University generated Adjusted EBITDA of \$2.6 million in the fourth quarter, with Aspen's BSN Pre-Licensure program contributing Adjusted EBITDA of \$946,000, as compared to Adjusted EBITDA of \$3.1 million, with Aspen's BSN Pre-Licensure program contributing Adjusted EBITDA of \$836,000 in the fourth quarter of 2020.

USU generated Adjusted EBITDA of \$1.4 million compared to \$689,000 in the fourth quarter of 2020. Finally, AGI corporate incurred an Adjusted EBITDA loss of (\$3.3 million) in the quarter compared to an Adjusted EBITDA loss of (\$2.4 million) in the prior year period.

For the full fiscal year 2021, consolidated Adjusted EBITDA was \$1.3 million compared to \$2.7 million in the prior year. Of the consolidated Adjusted EBITDA, AU generated \$11.6 million and USU generated \$3.6 million of Adjusted EBITDA, while AGI corporate incurred Adjusted EBITDA of (\$14.0 million), which includes \$2.7 million of one-time expense items.

Moving to the balance sheet, at April 30, 2021, our cash and cash equivalents were \$8.5 million, with restricted cash of \$5.2 million, compared to cash and cash equivalents of \$14.4 million, with restricted cash of \$3.6 million at April 30, 2020. Together with our unused \$5 million revolving line of credit, we ended the quarter with approximately \$13.5 million of liquidity resources. Additionally, in a given period, liquidity can be materially affected based on the timing and size of our semester starts.

With respect to our share count, the weighted average number of common basic shares outstanding at the end of the quarter was 25,000,342 versus 21,739,300 in the year-ago quarter.

Today, in the earnings release issued after the market close, we introduced the following guidance for the fiscal year 2022:

We anticipate revenue in a range of \$85.0 million to \$88.0 million, representing an increase of \$18.7 million or 27% year-over-year from the mid-point of the guidance range, and GAAP earnings per share of (\$0.18) to (\$0.12) for an improvement of \$0.29 cents or 66% year-over-year from the mid-point.

EBITDA for the full year is anticipated to be in a range of (\$1.6 million) to \$0.4 million, an increase of \$5.4 million or 90% from the mid-point. Lastly, we expect adjusted EBITDA in a range of \$2.0 million to \$4.0 million, increasing year-over-year by \$1.7 million or 137% from the mid-point of the range.

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

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from Jeremy Hamblin with Craig Hallum.

Ryan Kimbrel

This is Ryan on for Jeremy. First, I wanted to start out, can you give us a sense of how those new campuses are performing individually? Obviously, we know Austin has done quite well to start off, but how has Tampa and Nashville performed relatively speaking?

Michael Mathews

Yes, sure. So the first year of enrollment in our Phoenix Metro -- I'm going back, obviously, 3 years now, we generated approximately 500 enrollments in that first calendar year after we began marketing in Phoenix. Austin, we began marketing first. And we're tracking at this point to somewhere in the vicinity of 250 enrollments in the first calendar year of activity. So it's running about half the size

of Phoenix. So we're very pleased with how Austin has gone thus far. It's not going to be the same size as Phoenix simply because these other 3 markets that we've launched into, they are Tier 2 markets, and the size of those metros is between 2 million and 3 million versus obviously Phoenix which is 5 million. Nashville is a market that we just launched in 3, 4 months ago, so it's kind of early. But Nashville thus far appears to be tracking exactly like Austin. So it's going very well. Tampa has been a little bit of a struggle for us out of the 3. We're probably tracking to, I'd say, 125 enrollments in that first year. So it's probably running about half the size of, say, Nashville and Austin. So again, each market is very different in terms of competition, in terms of size, et cetera. So hopefully, that gives you some indication.

Ryan Kimbrel

Yes. Fair enough. Great. That helps. And then staying on the same subject. So given the comments you guys made on the new campus in a Tier 1 city and the early success of those double cohorts at the main Phoenix campus, has that changed your view on the size of the new campuses you want to target down the road?

Michael Mathews

No, I don't think so. So our plan has always been to have 12 campuses open over the next handful of years, by 2025 specifically. And of course, we have 5 now, and we'll open another 7 over the next 4 years. We've always planned to have a mixture of Tier 1s and Tier 2s. We think that these 3 Tier 2s we've opened in are going to be very profitable businesses. As we discussed earlier, even in a worst-case scenario, if it costs us \$3,000 for enrollments, which, of course, is a very good cost enrollment relative to the rest of the industry, we're looking at a 1 to 10 ratio, \$1 spent in advertising to \$10 of revenue. That's a darn good business. And we believe that the cost of enrollment, while it's very early days, and we don't get any organic leads or enrollments yet, we think it will trickle down to the \$2,000 range over the next year. So again, these are very good businesses. And yes -- to answer your question specifically, we have a number of Tier 1 markets that we're going to launch into over the next several years. So we're going to focus primarily on Tier 1's in the next 2 fiscal years. We may sprinkle in one or two Tier 2s.

Operator

Our next question comes from Eric Martinuzzi with Lake Street.

Eric Martinuzzi

Yes, a question about the Aspen 2.0 kind of the new business plan. To me, you've always been kind of a marketing efficiency-oriented company. So I'm wondering what is the new wrinkle here at Aspen. Is it really the push more towards the cash flow positive and less towards the growth? What's the Board level discussion that resulted in Aspen 2.0?

Michael Mathews

Yes. Eric, great question. We did, in fact, have some really healthy debates both in the executive staff as well as, of course, the Board. And if you really think about what has been the Aspen Group strategy since 2014? It's been for us to grow as quickly as possible in all of our business segments. And this is a change for us where we're basically saying, look, we're going to focus our growth

spending on the highest LTV businesses. And our traditional Aspen Nursing + Other business, which is a good business, it's a 1:5 ratio, we're going to drop spending and take those dollars and direct them towards our doctoral business, toward our FNP business, and of course, the new markets.

And so the consequence of those decisions allows us to continue to have excellent growth, we're projecting obviously mid- to high 20s for the year, but it allows us to start generating cash as we hit the late part of this fiscal year. So we think that we have developed a plan, which is the optimal approach, which is consistent growth, 25% plus for multiple years and generating material amounts of cash starting in Q4 this fiscal year.

Eric Martinuzzi

And I assume that, that plan you put forth here for FY '22 assumes you're self-funding. There's not any other capital required besides on the balance sheet to hit that plan?

Michael Mathews

Yes, I am glad you asked that question, Eric, because if you look at our EBITDA year-over-year, we're projecting -- at our midpoint, we're projecting an improvement of EBITDA of \$5.4 million year-over-year. And that obviously would be a 90% improvement. Now if you look at our cash burn for the fiscal year that just ended, we had an EBITDA result of negative \$6 million and our cash burn was approximately \$5.8 million for the full year. So I hope everybody picked up on the fact that we no longer burn more cash than we do our EBITDA results. The monthly payment plan over the years has caused us to have a higher cash burn than our EBITDA result. This is the first year where EBITDA now is essentially equaling our cash result.

So if we're projecting EBITDA this year and our forecast is to be in the vicinity of breakeven for the year, that obviously means that our cash burn is going to quiet down for the full year to a very minimal amount. So this business plan has allowed us to become a self-funded company on a go-forward basis.

Eric Martinuzzi

Okay. And then last question for me. You've given us an outlook for the year. I'm looking for a little bit more color. I know Q1 is typically your most challenging. Right now, there's a consensus estimate of about \$19.3 million, which would be roughly flat with where you finished Q4. What's your comfort level with the Q1 revenue?

Michael Mathews

Yes. And so of course, everyone knows that Q1 is our slowest seasonal quarter because it runs during the summer months, and our nurses tend to take vacations in particular during the summer months. Of course, now that COVID has thankfully started to quiet down. So we expect revenues to rise modestly. Probably, we'll end up in the range of about \$19.1 to \$19.5 for the quarter. And as a result of that modest revenue improvement, you should expect a similar modest improvement on the bottom line as well.

Operator

Your next question comes from Darren Aftahi with ROTH Capital Partners.

Dillon Heslin

This is Dillon on for Darren. Thanks for taking my questions. First one, could you sort of walk us through some of the puts and takes on your projections to be breakeven on the new campuses in 6 quarters, just given those are Tier 2, and I think you mentioned they're at least so far tracking about half the rate of Phoenix, but also have a little bit higher cost of enrollment. So I mean like how comfortable are you with that 6 quarter to breakeven, I guess, sort of time line?

Michael Mathews

Yes, we're pretty comfortable. I mean, if you guys remember back in history, we broke even after 12 months of operations in our first Phoenix campus. Our HonorHealth campus is a smaller business than our main Phoenix campus. So HonorHealth in many ways is very similar to what we're going to have with our new Tier 2 markets in terms of its maturation timeframe. So I would say that, yes, our original campus was 4 quarters. HonorHealth was somewhere between 5 and 6 quarters. And I would say these 3 new locations are probably looking, yes, right around the 6 quarters before it breaks even.

Dillon Heslin

And as a follow-up, is there sort of -- -- any specific reason for delaying that the new Tier 1 campus into -- I guess, technically, it's fiscal year '23. Is that because it gets you an extra quarter to get profitable in 4Q and stay profitable? Or is there something else with potential lease or getting the right setup costs there?

Michael Mathews

No, we just made a decision that we wanted to maximize our fourth quarter net income results and positive cash flow. That was really the reason. And so we'll start marketing into this new Tier 1 market right at the end of the quarter so that it doesn't affect our results. It's very important to the company and to the Board that we present to our great shareholders a substantial cash generation quarter in Q4, so that everyone can see the potential of this company in future years.

Dillon Heslin

So is that 4Q outlook like a baseline moving forward, like we set Aspen 2.0 and we're doing it, but then you still have to go spend on these new campuses?

Michael Mathews

Yes. So what we're saying is, based on the business plan that we just publicly announced, along with the guidance, we're looking at Q4 of this fiscal year as being the quarter that turns positive, materially speaking.

Dillon Heslin

Okay, got it. Thank you.

Michael Mathews

By the way, just one final point to give you kind of an indication of our breakeven point. It's in the vicinity of about \$23 million for a quarter. That would be our breakeven point. So obviously, if we produce \$24 million or \$25 million top line, it becomes a substantial material profit and cash -- positive cash flow.

Operator

Our question comes from Austin Moldow with Canaccord.

Austin Moldow

You mentioned reducing spend in the Aspen Nursing and Other segment for the first time. So can you give any color on your expectations for what enrollment and revenue growth will do in response to that reduction? And can you also give a quick update about the competitive intensity for that solely online segment?

Michael Mathews

Yes, I have to say that, our legacy segment, which is primarily RN to BSN program and our MSN program at Aspen University, those are, of course, all fully online programs. We're seeing no change in demand. In fact, our marketing team has been telling me that our cost per lead in that business is the best it's ever been. So there is not a competitive issue. There's no degradation on our side. We are planning to spend \$1.3 million less year-over-year. And again, we're going to direct that spending into the higher LTV businesses. So this is a proactive decision that we've made to maximize efficiency with our business, and it's going to get this company profitable later in the fiscal year, and we will sustain that profitability from there on out. That business unit, given that our cost of enrollment is projected to be about, I think, \$1,400 or so, means that the \$1.3 million decrease will cause our enrollments in that business to drop by around about 1,000 enrollments year-over-year.

Austin Moldow

Got it. You said that your new metro populations are about half the size of Phoenix, but the projected marketing efficiency is, I think, \$10 for \$60, if I called it correctly. Why is there bigger disparity in the marketing efficiency? Are there any other major differentiating factors there that causes that?

Michael Mathews

No. In fact, I hope that there's a lot of respect for the fact that we're going out today, and we're giving a very conservative cost of enrollment number for these markets because it's such early days. And I'm sure you guys respect the fact that when you're a new brand and you go into a market for the first time, it takes time to get name recognition and to ultimately get what we call organic leads, which is what brings the cost of enrollment down. So in the early days, you're always going to see artificially high cost of enrollment and then it trickles down over time. So obviously, it's too early for us to know where that will ultimately arrive at. But if I was a betting man, I'd say we'll end up in that \$2,000 range or perhaps less than that over time.

Operator

Our next question comes from Mike Grondahl with Northland Capital Markets.

Mike Pochucha

This is Michael on for Mike. Thanks for taking our questions. Maybe first off, just on enrollment advisors. Should we think about that as relatively flat for this upcoming year or just kind of reallocating between the different segments?

Michael Mathews

Yes, exactly. What we'll do is we -- in total, today we have somewhere in the vicinity of about 130 enrollment advisors across all of our units. And we have a plan to primarily keep that flat for the year, and it's a reallocation process. We'll reallocate a number of advisors from our Nursing + Other group to our doctoral and to our USU-FNP units. Our pre-licensure business today is pretty much already staffed and we'll keep that flat now. We are staffed well for each of our 5 metro locations.

Mike Pochucha

Got it. Then maybe on the sort of conversion rate between first year students and then getting to the sort of core student class and then one to go on to complete all credits. Has there been levers to pull there to like improve that? I think it's like roughly 2/3. But can you talk about that a little bit?

Michael Mathews

No, actually, I would say that there's very few levers to pull there. I mean we've got around 3 years of history now. And when a first year online student comes in, these are what we call PPN students. These are pre-professional nursing students that -- this is essentially a sophisticated gauntlet of courses you have to go through, math and science courses, to prove that you can ultimately become a registered nurse and effectively complete the 2-year core program. So we -- to date, our matriculation rate of those types of students is around 60%. And I don't think it's going to change significantly in either direction. So hopefully, that answers the question.

Operator

[Operator Instructions]. Our next question comes from Raj Sharma with B. Riley.

Raj Sharma

Congratulations on your new plan. If you could talk -- I know on the fiscal '22 guidance, advertising spend is going down a few notches. How should we think about the instructional costs as a percentage of sales and also marketing and promotional in total and then also G&A? I'm just trying to make sense of the fact that your advertising costs are going down. And how does the rest of the expense structure change? Or should it stay the same?

Michael Mathews

Raj, it's Mike Mathews. So number one, as we announced our plan today, assuming we hit the middle point of our range of revenue, that will dictate the fact that our advertising spend as a percentage of revenue year-over-year will improve or drop from 19% to 17%. So that's the first advantage. Now, again, let me be clear, we are not decreasing our overall spend rate, advertising spend rate for the

company, it's actually going to go up by about 13%, which will deliver around a 6% increase in bookings.

So we're still looking to book over \$150 million this year, which puts us in a great position to continue to have substantial growth in future years. Instructional costs we believe will be primarily flat year-over-year or perhaps go down slightly. The big difference is going to be G&A. We're going to try really hard this year to keep G&A at a single-digit growth rate year-over-year, which will provide us with that substantial leverage that we talked about earlier.

One thing that I do want to point out, Raj, that we didn't mention in our earnings remarks that's very important is the fact that if you look at adjusted EBITDA for the past -- for this last fiscal year, our adjusted EBITDA had \$2.8 million of non-recurring expenses. Our adjusted EBITDA formula, as I think you guys know, includes non-recurring expenses, bad debt and stock-based comp. So our adjusted EBITDA for the past year, again, had nonrecurring expenses of \$2.8 million. And this year, we're projecting an immaterial amount of nonrecurring expenses. We don't believe we're going to have any -- we'll have very little to none, okay? Secondly, bad debt year-over-year, we're projecting that bad debt will go down year-over-year by about \$1.3 million.

So the difference between adjusted EBITDA and our EBITDA guidance, I want everyone to understand that there's about a \$3.7 million difference on the adjusted EBITDA range that is not going to be repeated this year. So when you guys do your adjusted EBITDA analysis for this fiscal year, you've got to take that \$3.7 million into account, which is not going to repeat again this year, into consideration for your updated reports.

Raj Sharma

Got it. And then diverting advertising spend doesn't impact your core -- your Aspen online BSN-MSN growth rate as you just pointed out. But the new advertising spend on the pre-licensure and the family nurse practitioners -- that should keep enrollments up. What I'm trying to get to is, these changes don't impact your growth rates going forward.

Michael Mathews

No, not at all. Again, you have to realize that there's a couple of fundamental changes that are taking place, one of which is a proactive decision by the company, and the other is kind of like a situation that we just had to deal with, right? So we're dropping Aspen Nursing + Other enrollments proactively by about 1,000 enrollments year-over-year, okay? And secondly, our Phoenix prerequisite, our first year Phoenix students, the pipeline is nearing capacity. Our capacity analysis is 1,650 for first-year students. And if you said to me, Mike, where are you right now? We're around about 1,350. So we only have like 300 that we can still bring in. And of course, we have to replace the big cohorts that start every 2 months. But -- so just starting off from an enrollment point of view, we're minus 1,000 Aspen + Other and minus 600 in the Phoenix Metro. And so what we're doing is we're basically taking that 1,600, and we're shifting them to these other 3 units, right? For example, we're shifting it to the 3 new markets. We're projecting 800 enrollments in the 3 new markets this year. We're going to increase our FNP enrollments by approximately 600 year-over-year. And we're also looking to substantially grow our doctoral enrollments by 500 or 600. The net effect is about a 1% increase in enrollments year-over-year. And as I said earlier, a 6% increase in bookings.

Raj Sharma

Got it. And then lastly, one last question. I know that you just mentioned \$23 million -- \$22 million, \$23 million is your breakeven. The following year '23 and beyond, if you see 25% plus revenue growth rate, with -- obviously, the quarterly rate is going to be higher -- significantly higher than \$23 million, does that sort of all then mostly fall on to the bottom line?

Michael Mathews

Yes, a lot of it will, correct. We're expecting a substantial EBITDA result the following fiscal year, fiscal '23.

Operator

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

Michael Mathews

I want to thank everyone today for attending our fourth quarter earnings call. And of course, our first quarter earnings call is in a very quick turnaround 2 months from now in the second week of September, and I'm looking forward to everyone attending that as well. Have a good day. Good afternoon.

Operator

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