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

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Company Participants

Michael Mathews – Chairman and Chief Executive Officer

Matt LaVay – Chief Financial Officer

Conference Call Participants

Darren Aftahi - ROTH Capital Partners

Jeremy Hamblin - Craig-Hallum

Eric Martinuzzi - Lake Street Capital Markets

Michael Grondahl - Northland Capital Markets

Rajiv Sharma - B. Riley Securities

Operator

Good afternoon. Welcome to Aspen Group's Fiscal Year 2022 First 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 opening of our next new campus, our campus revenue growth and growth in the number of campuses 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 including the BSN Pre-Licensure trends, the effect of COVID-19 and the federal vaccine mandate, and our liquidity.

Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance.

A discussion of risks and uncertainties related to Aspen Group's business is contained in its filings with the Securities and Exchange Commission, including the Form 10-K for the fiscal year ended April 30, 2021, Form 10-Q for the quarter ended July 31, 2021, and in the earnings release issued this afternoon. Aspen Group disclaims any obligation to update any forward-looking statement as a result of future developments.

Also, I'd like to remind you that during this conference call, the Company will discuss EBITDA, Adjusted EBITDA and Adjusted EBITDA margins, which are non-GAAP financial measures in talking about the Company's performance.

Reconciliation to the most directly comparable GAAP financial measures are provided in the tables in the earnings release issued by the Company today. Please note that the earnings release is available on Aspen Group's website, aspu.com, on the IR Calendar page under News / Events.

There will be a transcript of this conference call available for one year on the Company's website. Please note that the earnings slides are available on Aspen Group's website, aspu.com, on the Presentations page under Company Info.

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

Michael Mathews

Good afternoon and thank you for joining our call today.

Aspen Group continued to experience solid momentum in the first quarter, delivering 28% year-over-year revenue growth in what has typically been our slowest seasonal quarter. Once again, all three of our business units, Aspen Online Nursing + Other, Aspen BSN Pre-Licensure, and USU delivered growth year-over-year. Our two highest LTV units, USU, primarily the MSN-FNP program, and Aspen University's BSN Pre-Licensure, now comprise 55% of our consolidated revenue. Let's take a closer look at each unit's growth and contribution to revenue:

- USU, primarily our MSN-Family Nurse Practitioner, or FNP program, grew year-over-year by 39% in the first quarter and comprised 32% of consolidated revenue. The FNP LTV is our second highest at $17,820. New student enrollments at USU grew by 18% year-over-year, from 572 to a quarterly record of 675.
- The BSN Pre-Licensure program, offering a bachelor's degree in a three-year hybrid online and campus-based program, was our most significant revenue growth driver in the first quarter, growing 70% year-over-year, and comprising 23% of consolidated revenue. This degree program is a pathway to becoming a Registered Nurse, or R.N., and delivers the highest LTV of our programs of $30,000. New student enrollments in the Phoenix metro were reduced as planned by 232 enrollments year-over-year, from 490 to 258 or by (47%). That caused BSN Pre-Licensure unit enrollments in aggregate in the first quarter to be down by 17%. Note that this planned decrease in enrollments in the Phoenix metro will cause a year-over-year aggregate decrease in the second quarter as well, and then beginning in the third quarter we expect to deliver material aggregate enrollment increases year-over-year in the BSN Pre-Licensure unit.
- Aspen Online Nursing + Other, our post-licensure degree programs for R.N.s looking to earn advanced degrees online, saw year-over-year revenue growth of 8% in the quarter. This business unit offers fully

online programs with the option to pay using our monthly payment program, or MPP. This business unit comprised 45% of consolidated revenue in the first quarter.

New student enrollments in the unit decreased year-over-year by 7% as expected, given the previously announced ‘Aspen 2.0’ plan to reduce spending in our Aspen legacy business by $1.3 million in the 2022 fiscal year.

On a Company-wide basis, new student enrollments increased sequentially from 2,182 to 2,276 or 4%. On a year-over-year basis, new student enrollments for the Company were down 3%, however, excluding the 232 planned enrollment reduction in the Phoenix pre-licensure metro, Company-wide enrollments would have been up year-over-year by 7%.

In terms of Bookings, the Company saw a sequential Bookings increase of $3 million, from $32.2 million to $35.2 million or 9%. On a year-over-year basis, Bookings were down 2%, from $36.1 million to $35.2 million. Excluding the 232 planned enrollment reduction in the Phoenix pre-licensure metro which equates to a year-over-year reduction of $7 million in Bookings, Company-wide Bookings would have increased by 17% year-over-year.

Our first quarter net loss was approximately ($871,000), and Adjusted EBITDA was approximately $506,000. I am pleased with the outstanding adjusted EBITDA performance of each of the three business units during a period of new campus investment. Each business unit produced an adjusted EBITDA margin of over 20%, which indicates the Company’s profitability and cash generation potential.

On a sequential basis, the first quarter operating and profitability metrics showed positive sequential improvement. A portion of this performance is attributable to the Aspen 2.0 strategy to decrease advertising spend on our lower efficiency unit and shift that spend to the higher efficiency business units. Aspen 2.0 is anticipated to reduce our advertising spend as a percentage of revenue for the fiscal year while supporting growth in our new pre-licensure metros and the USU FNP program.

As we advance through fiscal year 2022, we expect profitability gains from Aspen 2.0 to have the most significant impact in the second half of the fiscal year given the expected growth in our highest efficiency businesses. As we move through the year, Aspen 2.0 is designed to generate profitability by our fourth fiscal quarter, setting the company up for consistent, sustained profitable growth in the coming years.

Aspen Group's active student body at the end of the first quarter of fiscal 2022 was 13,879 students, of which 9,694 or 70% are licensed registered nurses (RNs) studying to earn an advanced degree. We have the highest student body concentration of RNs among publicly traded higher education companies in the U.S. Thus, it is crucial for us to track RN behaviors and attitudes carefully during the ongoing COVID-19 pandemic, which we have done for the past 18 months.

Starting in the second half of June and continuing throughout July 2021, we saw lower course starts than seasonally expected among our RN student body. Specifically, Aspen University course starts for RNs were flat year-over-year in the second half of June with July was slightly down year-over-year. Candidly, this is not surprising given the rise of the Delta variant infection rate and the spike in hospitalizations.

Revenue for the first quarter was relatively unaffected relative to our forecast, given that the lower-than-forecasted RN class starts happened in the back half of the quarter.

We cannot accurately predict the impact of the Delta variant on the Company's results for the remainder of fiscal 2022, however, any impact is expected to be temporary. For example, the last time we experienced this effect, it resulted in an approximate $500,000 revenue shortfall from our forecast in the fiscal 2021 third quarter, which was quickly made up in the following fourth fiscal quarter when class starts rapidly resumed to historical averages.

As we continue to fund our campus expansion during the upcoming months while the economy is experiencing the impact of the COVID 19 Delta variant, we felt it was prudent to draw down the entire $5 million dollars on our Line of Credit. As a result, the Company continues to have sufficient liquidity to execute our business plan and grow our business.

With that in mind, I want to remind you of primary growth levers for Aspen Group this year:

- First, the additional class starts from double BSN Pre-Licensure cohorts at our Main Phoenix Campus, meaning that every semester a total of three cohorts enter the core program across our two Phoenix Campuses.
- Second, the continued expansion of the USU business unit, driven by our successful FNP program.
- Third, and the most powerful lever of Aspen Group's future growth, is enrollment growth at our new BSN Pre-Licensure campuses that deliver the highest LTV of all our programs and have significant potential operating leverage.

As revenue from the BSN Pre-Licensure and USU business units grow, their contribution to the bottom line will also increase.

Our long-term growth goal remains becoming the industry-leading nursing school with affordable, convenient degree programs that enable working adults to achieve their career goals and improve their earning potential. 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 on track to achieve this goal. We are supporting our highest LTV programs with the Aspen 2.0 business plan and laying the groundwork to open our next new Pre-licensure campus in a Tier 1 metro market in the spring of 2022. By Tier 1, we mean a metro market with a population of over 5 million people.

Finally, I am pleased to welcome Matthew LaVay, our new Chief Financial Officer, who joined Aspen Group on August 16th.

I have enjoyed working with Matt on our first earnings cycle together, where he has already added tremendous value as we prepared for today's release.

I am confident that Matt will be an instrumental part of our team in strategic planning, managing our capital allocation strategy, financial planning and analysis, cash management and achieving our long-term goals. Together I anticipate that we can successfully grow our Company and improve shareholder value.

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

Please go ahead, Matt.

Matt LaVay

Thank you, Mike, and good afternoon everyone. It's a pleasure to be a part of the Aspen Group team. Mike has assembled a first-rate finance team and I look forward to a long and productive working relationship with everyone. He has also built a great culture at Aspen Group, which is evident throughout the Company and all the people I have met so far.

I will begin with a review of our financial results for the 2022 fiscal first quarter with some detailed commentary on a few P&L and balance sheet items.

In my comments on the quarterly results, I will refer to the first quarter that ended on July 31, 2021. All comparisons are to the prior year's first quarter ended July 31, 2020, unless otherwise stated.

Total revenues were $19.4 million versus $15.2 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 55% of our consolidated revenue. Aspen University's traditional post-licensure online nursing + other unit, which includes our growing Doctoral programs, contributed the remaining 45% of total Company revenue in the quarter.

Gross profit and gross margin were $10.4 million and 54%, respectively, versus $9.0 million and 59%, respectively, for the year-ago quarter. The year-over-year gross margin decrease is a function of launching marketing into three new pre-licensure metros over the past 12 months.

However, in looking at our result on a sequential basis, gross profit improved from $9.9 million or 52% to $10.4 million or 54%. The combination of continued high margin revenue growth in our BSN Pre-Licensure unit and reduced advertising spend in our lower LTV business unit is anticipated to drive strong gross margin improvement in the second half of this fiscal year.

Overall instructional costs for the quarter were $4.5 million or 23% of revenue, up from $3.1 million or 20% of revenue. The increase in instructional costs as a percentage of revenue was primarily due to the hiring of full-time faculty for the new pre-licensure program at the new campuses in Tampa, FL and Austin, TX, and to support double cohorts at our Phoenix campus. As Mike previously stated, double cohorts is one of our growth levers, and, given the high LTV of this program, is expected to lift gross margin in the second half of this fiscal year. Additionally, as our new campus enrollments increase, the additional contribution to profitability will also factor into lifting the gross margin in the second half of fiscal year 2022.

Total marketing and promotional costs for the first quarter were $4.1 million or 21% of total revenue, up from $2.8 million or 18% of revenue. The increase of marketing as a percentage of revenue results from the planned increase in ad spend primarily directed to our three new pre-licensure metros. As Mike stated earlier, we have shifted how we spend our marketing dollars to improve the efficiency of our marketing spend.

The quarter's general and administrative costs were $10.9 million, or 56% of total revenue, compared to $8.8 million, or 58% of total revenue, during the comparable prior-year quarter. The quarterly increase in G&A spend 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 $0.8 million at Aspen University, and increases in facility and technology costs across both universities. The decrease as a percentage of revenue is attributable to cost controls implemented by management in G&A not impacted by campus growth.

Total net loss was ($870,888) or net loss per basic and diluted share of $(0.03), compared to a loss of ($943,196) or net loss per share of $(0.04) in the prior-year quarter.

From a unit perspective, Aspen University's net income for the quarter was $2.3 million, flat with the prior-year period. USU's net income was $1.3 million versus $1.0 million in the prior-year quarter. Finally, AGI incurred a net loss of ($4.5) million for the quarter, compared to a loss of ($4.3) million in the prior-year quarter.

Consolidated EBITDA for the quarter was $91,663 as compared to breakeven in the prior year period. First quarter EBITDA period-over-period for each of the three units was as follows:

- Aspen University generated $3.1 million compared to $2.8 million
- USU generated $1.3 million compared to $1.0 million
- AGI had an EBITDA loss of ($4.4 million) compared to an EBITDA loss of ($3.8 million)

Consolidated Adjusted EBITDA was $500 thousand compared to $1.3 million in the prior-year quarter. Adjusted EBITDA for Fiscal Q1 2022 excludes a one-time gain of approximately $500K related to a legal settlement.

From a unit perspective, Aspen University generated Adjusted EBITDA of $3.0 million in the first quarter, with Aspen's BSN Pre-Licensure program contributing Adjusted EBITDA of $1.0 million, as compared to Adjusted EBITDA of $3.2 million, with Aspen's BSN Pre-Licensure program contributing Adjusted EBITDA of $1.0 million in the first quarter of 2021.

USU generated Adjusted EBITDA of $1.5 million compared to $1.1 million in the first quarter of 2021. Finally, AGI corporate incurred an Adjusted EBITDA loss of ($3.9 million) in the quarter compared to an Adjusted EBITDA loss of ($3.0 million) in the prior year period.

As Mike mentioned, our business units continued to deliver Adjusted EBITDA margins above 20% during a period of new campus investment. Aspen University's Adjusted EBITDA margin was 22% as compared to 29% in the prior year quarter. USU's Adjusted EBITDA margin was 24% as compared to 25% in the prior year quarter.

Moving to the balance sheet, at July 31, 2021, our unrestricted cash and cash equivalents were $6.6 million, and restricted cash was $3.7 million. At April 30, 2021, our unrestricted cash and cash equivalents were $8.5 million, and restricted cash was $5.2 million.

On August 31, 2021, the Company drew down $5 million on the credit facility and extended the maturity by one year to November 4, 2022. The purpose of these funds is to be used for general business purposes, including the roll out of our new campuses. As we execute the Aspen 2.0 business plan, we anticipate decreasing the need to borrow funds in the future.

With respect to our share count, the weighted average number of common basic shares outstanding at the end of the quarter was 25,070,072 versus 22,094,409 in the year-ago quarter.

In closing, today we are reiterating our full year guidance for Fiscal Year 2022, which we introduced on our fourth quarter fiscal year 2021 earnings call and published in the earning release for that period.

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

Operator, please open the call for Q&A.

Q&A Session

Operator

[Operator Instructions]. Our first question comes from the line of Darren Aftahi from Roth Capital Partners.

Darren Aftahi

Could you just give us a little bit of granularity on the new pre-licensure campuses that you've launched, just kind of the cadence in terms of how they're doing? And then I know you've talked several times in the last couple of quarters about limiting enrollments in Phoenix. I'm just kind of curious about your general thoughts. It seems like there's enough demand if you would ever expand the Phoenix campus to a third location or expand on what you currently have?

Michael Mathews

It's Mike Mathews. So last quarter, I gave an update on enrollments in our 3 new metro markets. And enrollments are tracking similar to my comments that I gave last quarter. So, for example, enrollments in the first 12 months in Austin, in fact, ended up exceeding our expectations of 250 enrollments for that first 12-month period, which is great news. Tampa continues to track to about 125 in the first 12 months, similar to our previous expectations. And Nashville continues to track similarly to Austin.

From a Phoenix perspective, we definitely do continue to have very strong demand. We've dropped, of course, our spend rate in the Phoenix metro very materially. And if demand continues to exceed expectations over the next year, we perhaps could consider a third location. So it's something that's definitely a possibility, but not currently on the drawing board.

Operator

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

Jeremy Hamblin

I wanted to ask about the next campus opening. And just get a sense for capital position, you drew down the revolver here an additional $5 million. And just can you give a sense for cash flow expectations? I know I think that you're looking for breakeven on that by Q4, if I remember the guidance correctly. But do you feel -- is there a level? And I know Matt is new, but is there a level of capital where you feel comfortable that you don't need anything additional? And in terms of thinking about an extension of the existing line that you've been utilizing in the $5 million you drew down on that, pretty expensive capital. Are there other opportunities you're potentially looking at outside of that expense of capital?

Michael Mathews

Yes. Thanks for the questions, Jeremy. I'll handle the first question, and I'll turn it over to Matt. So please remind me of your first question again.

Jeremy Hamblin

Just in terms of the capital need for your opening of the next campus.

Michael Mathews

Yes, for the next opening, I apologize as I was distracted. Yes, so our next location, as we've announced, it's going to be in a Tier 1 location, which means that the population will be 5 plus million people, so a very similar kind of size as Phoenix. We expect to begin marketing approximately in the month of May is our current plan. And our first core semester would likely then be in the fall next year.

From a capital outlay perspective, we typically only need about $0.5 million of CapEx -- essentially for FF&E. The TI that's required to build out a campus is essentially built into the long-term lease. So from that perspective, it's been a pretty CapEx-light expansion for us, and we expect that to continue.

I'll turn it over to Matt to talk about your cash questions and latter line of credit question.

Matthew LaVay

Yes, Jeremy. So regarding cash, the way to think about cash is that as you can see in the quarter that we're announcing, Q1 of 2022, we had a cash burn of around $1.9 million. As we look forward through the remainder of the year, we would expect no more than $2 million of operational cash burn per quarter over the next few quarters. But as you know, with Aspen 2.0, we're going to get to net income breakeven by the time we get to the end of the year, and cash will trend along with that. So we expect that as we turn net income positive, our operational cash burn will decrease significantly and eventually, will turn positive. So that will be what we expect down the road, which again, aligns with our net income trend.

So with that being said, when we think about cash needed for expansion and capital needs, that sort of thing, we might consider refinancing as we go down the road as we continue to open new campuses. So what I've been explaining to you is an operational cash metric, we have our investing cash needs as well, the plan with the campus openings. So as we get into next year, as we get closer to the refinancing expiration, we will explore expansion of the current line of credit, and we'll consider where we are relative to our expansion needs, and we'll make an assessment at that time. But the only reason we'd be drawing down from what we can tell right now is for expansion purposes.

Jeremy Hamblin

Got it. That's helpful. And then coming back to the commentary, Mike, on the potential impact of the delta variant on new student enrollments, I think, particularly to Aspen U. So just want to make sure that I heard this right. I think you said that starts were flat in June, and they were slightly negative in July. I wanted to just get a sense for this go around, kind of the impact that you saw versus over the winter surge in COVID. Was this about the same? Was it a little worse? Did it come on quicker? Any additional color that you can share on that? And kind of what's the timing -- over the last six weeks?

Michael Mathews

Yes, that's a great question. So first of all, just to clarify that during COVID-19, at no time have we really seen a material enrollment problem amongst our prospective RN students. So it's really been an issue of our active student body. And of course, RNs make up 70% of the company's active student body. And so it's been their behaviors that have been, frankly, a little bit of a roller coaster in the last 9 months. Interestingly, as you guys, I'm sure are well aware, when the pandemic began a year ago in March, we didn't see much of an effect from a registered nurse course start behavioral point of view up until like November last year.

And yes, so in November and December, there was a material decrease relative to our historical averages in terms of course starts for registered nurses. And as you know, that caused us to have approximately $0.5 million decrease in revenue versus our typical expectations. Interestingly, the core starts amongst RNs came roaring back after the new year and as you guys know, we had a very, very strong April quarter. The month of May was pretty much per expectation. And then as we hit the second half of June, we're seeing, for the first time, flat course starts year-over-year in the second half of June and then July was actually slightly worse. The course starts were actually lower in the month of July relative to July of the previous year.

So it happened in the back half of the first quarter, so that really didn't cause much of a revenue effect, maybe $100,000 or $200,000 at the most. Most of the effect you'll see in the quarter that we're in now, the second quarter. August went much better. So it's difficult for us to say at this point what the expectation is going to be and how the behaviors of the registered nurses will occur in the coming months and coming quarters. But again, as we said earlier, it's been a bit of a roller coaster and whatever effect that we see will be temporary.

Jeremy Hamblin

Understood. And just to clarify again, I think the comment at the end, the table with guidance that you had laid out for the year, inclusive of those enrollments, I think just under 6,500 for Aspen U and just under 3,000 for USU. Are those kind of still your expectations for the year?

Michael Mathews

Yes, absolutely. As you guys are probably aware, enrollments in our Phoenix metro hit the peak in the second quarter last year, we did 576 enrollments in that second quarter. And for the full year, our company enrollments were approximately 9,300. And again, that was the full fiscal year last year. This year, we're expecting enrollments for the first half of the fiscal to be in the, say, 4,500 to 4,600 range. And again, that's for the first 2 quarters, the first half of fiscal '22. Then the increases you're going to see in enrollments are going to be back-weighted into the second half of the year. And we're expecting enrollments to be in the range of about 4,800 to 4,900 in the second half, which gets you to the 1% increase in enrollment that we guided last quarter for the full year.

Jeremy Hamblin

Great. That's helpful color. Best wishes, guys.

Operator

Our next question comes from the line of Eric Martinuzzi from Lake Street.

Eric Martinuzzi

Yes. I had a question. I understand the reiteration for the guidance for the full year. But given the color you just gave in the prepared remarks as well as in the Q&A just now, wondering, right now, there's a 6% lift in the consensus between the $19.4 million in Q1 revenue and the $20.6 million in Q2 revenue, is that realistic the $20.6 million? And then I have a follow-up.

Michael Mathews

Yes, Eric, thanks for the question. It's still too early in the quarter for us to really be able to call what the revenue is going to end up being for the full second quarter. Again, we've said today that we feel pretty strongly that whatever occurs in terms of class starts for our RN student body, we see it to be temporary. So from a full year perspective, there's no reason for us to change our guidance at this time.

Eric Martinuzzi

Okay. And then, maybe I missed. I think there was -- I think it was asked, and I'm not sure if it was answered, but you talked about kind of middle of June through the end of July and then the COVID, the delta impact. And then what was the response again regarding the last 6 weeks, kind of month of August as well as month-to-date September?

Michael Mathews

Yes. So September -- our first start date in September is actually today. And we don't really know how that turns out until the 7-day drop period. So we’ll know a week from now. So there is no data yet on September, but August came back. It was up not quite to historical averages, but it definitely improved in August. I believe it was 8% increase year-over-year in the month of August. So usually, we're up 10% to 12%. So it definitely bounced back in August, and we'll see how September goes as well as October, of course.

Eric Martinuzzi

Okay. And then just taking an eye on enrollment costs, I'm not sure -- I didn't see it in the press release and maybe it will be in the Q, but what are enrollment costs tracking kind of in line, how are they tracking versus historical?

Michael Mathews

Yes, I mean, everything is tracking exactly as is. We indicated last quarter that we were planning to spend approximately $3.7 million of advertising per quarter for the full fiscal year. And we spent almost $3.7 million this quarter almost to penny. So it's managed extremely well and extremely carefully with Gerard Wendolowski as our leader. And I expect that our spend rate will remain similar this quarter. And obviously, as we talk about this enrollment growth in the second half of the year, our cost of enrollment averages that we projected in the beginning of the year for the full year should be consistent.

Eric Martinuzzi

Okay. Well, I appreciate the responses to my questions. I certainly don't want to understate what you did achieve in Q1, which was a pretty substantial year-on-year increase of 28%. So that was good to see and shouldn't be taken for granted.

Operator

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

Michael Grondahl

Mike, could you drill down into Tampa a little bit? And just -- is that a market that you think can improve in the next couple of quarters? Or how does that get back on track for lack of a better word? At 125 on the enrollment side, it just seems to be a laggard. And then secondly, if you look out a couple of years, what are the top 3 areas where you're going to get leverage in the model, and when are we going to see kind of a lift in margins?

Michael Mathews

Well, I mean, if I could kind of question your thought process and conclusion on Tampa, I think it's incorrect. And I'll tell you why. So the largest pre-licensure business in the United States is Adtalem, and of course, it's Chamberlain College of Nursing. And when they filed their K not long ago, they reflected that they had 22 campuses across the United States and right almost on the button, 10,000 students. So some quick math would tell you that the average per campus is 450 students. So for us to have 150 enrollments in our first 12 months basically says that this is going to be a business that is going to be stronger than the average of Chamberlain nursing campuses. So I think what's happened is the success in Phoenix, I think, is sort of -- how should I say, it's kind of -- the expectations are a little bit out of control.

Phoenix was an absolute home run, as we all know. But for us to be delivering well over 250 enrollments in Austin in the first 12 months, Tampa is 125 approximately. We haven't gotten there yet, but that's what we're tracking toward. That is a strong, good business. So yes, it's not as strong, but I think it's -- we have to all be careful to not assume that that's a disappointment. It is less than our other 3 locations, no doubt. But at the end of the day, it's not a disappointment from our perspective.

Michael Grondahl

Okay. I mean, that's helpful. But I mean it's clearly compared to the other 3 an outlier. So I'm just trying to understand it better.

Michael Mathews

That's your words, not mine.

Michael Grondahl

Got it. And then, just the couple of top areas where some efficiencies are going to be gained over the next couple of years, just so we can see the leverage and the margins improve. Where is that improvement coming from?

Michael Mathews

Yes. I mean, I'll let Matt handle that because he's been here 3 weeks, but he's up to speed as if he's been here three years. So go ahead, Matt.

Matthew LaVay

Sure. So one area that you need to think about is in the G&A line. So you'll notice in the current quarter, our G&A as a percent of revenue was 56%. If you look at the quarter a year ago, it was 58%. So we're already getting some leverage on that line. And as you go forward in scale, you can expect to see more of that in the future. Now of course, quarterly expenses can be lumpy. So these are kind of longer-term trends that I'm talking about, but that's one area that you should -- where you should be looking. And in other area is in our cost of sales. So if you look at our gross margin, you'll notice that as we open new campuses, there could be a temporary dip. But again, that's a temporary number. I think we're down 4 percentage points from a year ago quarter.

Going forward, you'll see that rebound as campuses come up and become more productive. And as the scale of the business increases relative to the size of the new campuses opening, you'll see less of an impact there as well. So on top of what Mike has been talking about as far as enrollments and that sort of thinking, I think you can look at these expense areas as areas for leverage.

Operator

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

Rajiv Sharma

Michael and Matt, could you -- Michael, I know that you had mentioned that enrollments would come back on in the third quarter. Could you just address that, why will the enrollments come back in the third quarter? Is that because the first year would have moved on to the second and third year and you now have openings in the first year program?

Michael Mathews

No. So I think there is a misunderstanding there. So a year ago, in the first quarter, we had 490 enrollments, and it actually went up in the second quarter, and this is in the Phoenix metro. The Phoenix metro in Q2 actually rose to 576 and we have dropped enrollments in Phoenix into the sort of 200 to 250 range a quarter for the last few quarters. And we're not expecting to increase Phoenix enrollment rates in future quarters. What we're talking about is that on an aggregate basis, the pre-licensure unit, which includes Phoenix plus the three new markets, in the second half of the fiscal year, you're going to see a material increase year-over-year because, of course, in the second half of this past fiscal year, we had dropped the Phoenix enrollments, so that year-over-year comp is going to be much easier. Does that make sense?

Rajiv Sharma

Yes. Got it. I understand it now.

Operator

Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Michael Mathews for any further remarks.

Michael Mathews

Thanks, everyone, for your attendance today. We're looking forward to our next conference call in the second week of December. Have a good afternoon. Thank you very much.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program.

You may now disconnect. Good day.