Aspen Group, Inc. (NASDAQ:ASPU) Q3 2020 Earnings Conference Call

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Company Participants

Michael Mathews - Chairman and Chief Executive Officer

Frank Cotroneo - Chief Financial Officer

Conference Call Participants

Darren Aftahi - ROTH Capital

Austin Moldow - Canaccord

Eric Martinuzzi - Lake Street

Mike Malouf - Craig Hallum

Mike Grondahl - Northland Securities

Operator

Good afternoon. Welcome to Aspen Group's Fiscal Year 2020 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 growth of future student enrollments, bookings and ARPU, fiscal 2020 revenue growth, the expansion of the highest LTV programs, expected G&A trends including fiscal 2020 Adjusted EBITDA, gross margins, expected campus expansion, campus capital expenditures and campus operating metrics and generating cash from operations.

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's business is contained in its prospectus supplement dated January 17, 2020, its Form 10-K for the year ended April 30, 2019 and its third quarter 10-Q filed with the Securities and Exchange Commission 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 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.

There will be a transcript of this conference call available for one year at the Company's website. Please note that 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 & Chief executive Officer.

Michael Mathews

Good afternoon. This has been another record revenue quarter for Aspen Group, and I'm extremely pleased with how my team is performing. I want to acknowledge their hard work and dedication to our mission to make college affordable again.

That dedication is ultimately what produces strong financial results like we're reporting today – thank you to all the Aspen University, United States University and AGI employees.

OK, let's begin today with an overview of the solid results for this quarter and the factors which drove our growth. Then I will discuss our roadmap for future growth.

Before we go over the quarterly results, I'd like to connect a few dots. First, I'd like to point out that since we began offering our monthly payment plan in March 2014, Aspen Group averaged over 50% annual growth in the five fiscal years thereafter.

We achieved this by pursuing a plan to build a nursing education platform that could meet today's need for affordable nursing degrees.

Subsequently, in 2017 we acquired United States University featuring their Master-level Family Nurse Practitioner degree program, and in 2018 we launched our hybrid 3-year online/on campus Pre-Licensure Bachelor of Science in Nursing program.

These two strategic steps gave us a comprehensive offering of nursing degree programs, increased our addressable market, and added new programs that brought significantly higher life time value (LTV) degrees into our portfolio.

Most recently, our strategy has been to focus our marketing spend on increasing enrollment in our high LTV nursing programs. As demonstrated in the third quarter results, it's clear that our strategy of prioritizing marketing dollars to grow enrollment in high LTV nursing programs is working, as evidenced by another quarter of exceptional revenue growth and a 72% increase in bookings.

I'm very pleased that we delivered this level of growth with only a 9% increase in our marketing spend year-over-year. Each marketing dollar spent in the third quarter returned a 15.1X and 16.2X Marketing Efficiency Ratio (MER) in the quarter for Aspen University and United States University, respectively. This is an extremely efficient business model.

Keep in mind that each year our third quarter enrollment is sequentially lower than the second quarter, which is our strongest 'back to school' seasonal enrollment quarter and that this past Q2 was an extraordinarily strong, record enrollment quarter.

That said, I'm very pleased with our Third quarter enrollment growth of 28% year-over-year to 1,746 new students. In the third quarter, Aspen University accounted for 1,371 new student enrollments, delivering overall growth of 23% year-over-year, primarily due to a full quarter of enrollments in our Pre-Licensure BSN programs at both of our Phoenix campuses.

United States University (or "USU") accounted for 375 new student enrollments, primarily due to FNP enrollment growth, for a 49% increase in overall enrollments year-over-year.

AS I mentioned earlier, our marketing efficiency ratios also remained very high this quarter. Every dollar we spent in marketing on Aspen University delivered over $15 in revenue. For USU we received over $16 in revenue for every marketing dollar spent. These results reflect the value of our proprietary EdTech platform and the sophistication of our corporate marketing staff.

In fiscal Q3 2020, bookings meaningfully increased from $15.5 million to $26.5 million, delivering an average revenue per enrollment (or "APRU") increase of 34%, from $11,352 to $15,199.

The bookings increase coupled with low enrollment costs is the primary driver of the gross margin improvement of 700 basis points year-over-year to 57% in the third quarter.

Internally, our units continued to focus on operational improvements that, combined with lower enrollment costs, resulted in another quarter of positive net income for all three of our business units – Aspen University online, Aspen's pre-licensure BSN, and United States University.

These results underscore the performance of our EdTech platform in lowering enrollment costs and contributing to the key competitive advantages of lower tuition rates, financial flexibility and better outcomes for our students, which in turn are powering our growth.

I can't emphasis enough that our EdTech platform is driving value for all our stakeholders: our students achieve better outcomes, take down less debt, enjoy financial flexibility in tuition payment options; our business is driving material improvements to our financial performance as evidenced by our Adjusted EBITDA margin improving by 15 margin points year-over-year, our employees report high job satisfaction and increased opportunity for career growth, and our shareholders are seeing improving shareholder value based on our high-performing, differentiated business model.

Longer-term, our roadmap is to build-out new capacity for our highest LTV degree programs. To fuel our future growth, we strengthened our balance sheet in January with a $16 million equity raise and restructured our debt to lower our interest expense and add the convert feature.

Those transactions allowed us to end the quarter with a record of just over $26 million of liquidity.

For the past year we have successfully demonstrated that we can grow these high LTV programs with an extremely effective marketing spend. The recent financing initiatives will allow us to continue investing in new BSN pre-licensure campuses, a potential $100 million revenue opportunity in the next five years.

We recently announced the locations of our two new campuses for our pre-licensure BSN program in Florida and Texas, both of which will be enrolling students later this year. We intend to have 12 campuses operational by 2024.

We also intend to build out exam rooms in each metro location where we have a BSN pre-licensure presence, in order to allow for USU MSN-FNP weekend immersions in each metro, which will be a catalyst for future enrollment growth in this highly-sought after degree.

We continue to invest in our future to deliver long-term growth, creating profitability, and improvement in cash flow from operations.

Given the strong performance in the first nine months of fiscal year 2020, we now expect annual revenue growth to meet or exceed 42% for the full fiscal year based on anticipated year-over-year enrollment growth of approximately 30%, bookings is forecasted to exceed 54% to over $102 million, and we're forecasting ARPU to increase at least 18% to a full-year average over $13,440.

Now I'll turn the call over to Frank to review our financial results for Q3 and to provide an update on our liquidity.

Frank Cotroneo

Thank you Mike, and good afternoon everyone. I am going to begin by reviewing our financial results for the 2020 fiscal third quarter and then provide some insight into this quarter's performance and some commentary regarding our expectation for coming quarters.

Total revenues for the third quarter were $12.5 million, up 48% versus the year-ago period. As Mike indicated, our strong revenue growth was driven by new student enrollments, which increased 28% to a third quarter record of 1,746.

Of total new student enrollments, Aspen University was up 23% and United States University was up 49%. Strong growth in our higher LTV programs drove bookings growth of 72% to $26.5 million.

Aspen University had Q3 enrollments of 1,371, up from 1,112 in the year-ago period. Bookings for this business unit was $19.9 million versus $11.0 million in the year-ago period. AU was a significant contributor to our total bookings growth of 72% and is expected to drive continued growth in bookings in the coming years.

USU had Q3 enrollments of 375 versus 251 in the year-ago period, an increase of 49%. USU bookings were $6.7 million this quarter, up from $4.5 million or an increase of 49% for the Q3 2019.

Aspen Group's gross margins for the third quarter improved to 57%, up from 50% in the prior-year period. The 700 basis point year-over-year improvement in gross margins was primarily driven by our marketing expenses only increasing 9% year-over-year.

From a unit perspective, Aspen University's gross margin was 58% in the third quarter versus 45% in the prior-year period. USU's gross margin was 60% in the third quarter, up from 45% in the year-ago period. This gross margin increase reflects the effects of higher LTV programs growing as a percentage of our revenue led by the pre-licensure BSN and FNP programs. We expect this trend to continue as we rollout our campus strategy in the coming years.

Overall total instructional costs and services for the third quarter was $2.6 million or 21% of revenue, or $1.8 million or 21% a year ago. Instructional costs for Aspen University represented 19% of Aspen University revenues versus 18% in the year-ago period while instructional costs for USU in the current quarter represented 25% of USU revenue versus 30% in the year-ago period.

Total marketing and promotional costs for the third quarter were $2.5 million or 20% of total revenue, an improvement over the prior-year period which was $2.3 million or 27% of total revenue.

Marketing and Promotional expenses increased approximately $500,000 over the sequential quarter and approximately $200,000 over the same quarter a year ago. This was an affirmative decision to increase our investment in growing our student pipeline in our Doctoral program and Pre-Licensure and FNP -- our two highest LTV and fastest growing programs.

Marketing and promotional costs for Aspen University represented 20% of Aspen University revenues, down from 25% in fiscal Q3 2019. USU's marketing and promotional costs were 15% of USU's revenues, down from 25% in fiscal Q3 2019.

This performance demonstrates the continued value creation of our EDTech program to enroll more students into Higher LTV programs, at a lower overall cost; thus increasing the efficiency of our Marketing spend and contributing to our trajectory toward sustained profitability and cash flow generation.

General and administrative costs for the quarter were approximately $8.6 million compared to approximately $6.3 million during the comparable prior year quarter, an increase of $2.3 million or 37%.

The recurring G&A for the quarter of $7.8 million increased 26% year-over-year, therefore we are tracking to our long-term goal that G&A will grow at approximately half the rate of revenues.

Total non-recurring expense for the current 3Q is $1,010,000. The non-recurring costs are composed of $544,000 of CFO transition costs, $283,000 of other G&A, and $182,000 of accelerated amortization of financing costs from previous financing activities, as compared to $83,000 for the year ago quarter for other G&A cash items. Of the $1,010,000 of non-recurring, $354,000 are cash and $656,000 are non-cash.

From a company bottom line perspective, the total net loss for the 3Q is ($2,281,052), compared to a loss of ($2,355,940) in the prior year quarter.

For this third quarter, excluding the non-recurring costs previously discussed, the recurring net loss for the 3Q would have been $1,271,052 or (7 cents per basic share) compared to $2,272,770 or (12 cents per basic share) in the prior year quarter. Excluding non-recurring costs, this is an improvement of $1,001,718 or 5 cents per basic share versus the year ago quarter.

From a unit perspective, Aspen University's net income for the quarter was $1.3 million versus $0.4 million in the prior-year period. USU's net income was $40,028 versus a net loss of ($0.9) million in fiscal Q3 2019.

Both universities improved performance reflect strong enrollment growth fueled by our EdTech platform and its ability to bring students into our higher LTV programs at an increasingly efficient marketing spend per student.

For AGI, excluding the non-recurring items discussed earlier, G&A expenses were $2.0 million in the quarter versus $1.5 million in the year-ago quarter. The year-over-year increase in corporate expenses is primarily due to corporate staff increases in finance, accounting and marketing, as well higher non-cash stock compensation.

With regard to our liquidity position, cash used in operations for the quarter was approximately $1.8 million versus $1.9 million in the year-ago period and $0.3 million in the prior quarter.

Recall last quarter the company received approximately $500,000 of financial aid funds just days before the end of the quarter which we didn't benefit from this quarter. Excluding non-recurring items in the current quarter, the cash used in operations this quarter was $1.45 million. Therefore, the average cash used in operations for Q3 and Q2 (last two quarters) is $0.9 million, a 47% reduction from the $1.7 million used in the first quarter and approximately a $1.0 million or a 53% reduction in cash used in operations from the 3Q a year ago. This performance reflects our continued improvement on our path toward positive cash from operations.

Adjusted EBITDA for the quarter is a positive $222,415. This is approximately $450,000 less than originally planned. This reflects our decision to increase our marketing expenditures quarter over quarter by $539,000 to continue to invest in building our pipeline of students for our higher life time value programs including Doctoral, Pre-Licensure and Family Nurse Practitioner. We expect to continue our strategy to increase our investment in these programs in the coming quarters.

Aspen Group ended the quarter with approximately $21 million in cash. Together with our unused revolver of $5 million, we ended the quarter with approximately $26 million of liquidity resources.

With respect to our share count, the weighted average number of common basic shares outstanding at the end of the quarter is 19,420,987 versus 18,398,095 in the year ago quarter. This increase does not yet reflect the full effect of the shares sold in the equity raise which closed on January 22, 2020. The company issued 2,415,000 shares and currently has 21,710,408 outstanding at January 31, 2020. These shares will have a full effect on EPS in the coming 4Q.

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

Question-and-Answer Session

Operator

[Operator Instructions] And our first question comes from the line of Darren Aftahi with ROTH Capital.

Darren Aftahi

Can we talk a little bit about some of your newer campuses on the Pre-Licensure side? I know when you open the second or about to open the second in Phoenix campus with HonorHealth, you kind of built a pipeline. I was kind of curious if that's already occurred for one. And then two, what kind of marketing you're doing at this early stage? And I've got a couple of follow ups.

Michael Mathews

It's Mike Mathews. I apologize. Are you asking about HonorHealth? Or are you asking about our next campus opening which is Tampa?

Darren Aftahi

I'm actually asking about Tampa and then Austin kind of behind that.

Michael Mathews

Okay. So we are in the middle of the regulatory review process with the regulatory bodies in the State of Florida, both the Department of Education as well as the nursing board. And we expect to -- the final meeting of the board of nursing and Department of Education is in late April, which I plan to attend. And subsequent to that meeting, assuming we receive approval within the following week or two, we will commence immediately with our marketing program, and so we're targeting the month of May to begin marketing for our initial semester start, which is the first week of August.

Darren Aftahi

And then, as we kind of think about that business, and I know it's new, but although we think the Tampa market and then follow-up the year, your cost of enrollment, although I know you've rolled up a bit into kind of all of Aspen on the pre-licensure side, it's still relatively low. What are your expectations on costs of enrollment in these newer markets? And should we think about those figures potentially being at par, higher, lower? Just trying to get a sense for how we should kind of model this going forward with these new Pre Licensure campuses?

Michael Mathews

Sure. So we're internally modeling the cost of enrollment to be slightly higher in our new metros, both Tampa as well as Austin. And the simple reason for that is that we have the benefit of our partnership with HonorHealth, where they've been able to deliver to us hundreds of Pre-Licensure students, both existing employees as well as other leads that they've been able to send to us for Pre-Licensure enrollments. So we won't receive that benefit of that great partnership with HonorHealth, and the fact that they've been very good about giving us a pipeline of leads. So, we've been in the $200 to $300 range for the first year and half of the Pre-Licensure business. However, there's every reason to believe that our cost of enrollment will continue to be south of $500. That's what we're modeling.

Darren Aftahi

That's great. And then I'll just ask you because I know somebody will. But should the COVID-19 if it kind of manifests itself, what potential kind of impacts would that have for your business, if any? Is that going to be factored into the next quarterly guidance?

Michael Mathews

Yes. So let me talk a little bit about where we are with that. So first, thankfully, we have a very close relationship with HonorHealth in Phoenix. And we receive updates regularly as this is the only metro in which we have an operating P-L campus business today, in of course Phoenix. Our business is less at risk than other universities for two reasons. One, our students are all commuters thus none of our students live on campus. And number two, we have a small group of students that come in only three times per week for a half day for lectures and clinical simulations. We absolutely will continue to monitor the situation in the Phoenix metro very closely. And we do have a series of plans in place, should there be any effect in our two campus locations. And, for example, we are looking at the possibility of doing clinical rotations in a telehealth environment as one example. So we have some creative solutions. Should we have to, at any point in time, look for alternative clinicals for our students.

Operator

Thank you. And our next question comes from the line of Austin Moldow with Canaccord.

Austin Moldow

Given a modest marketing spend growth year-over-year, but actually having accelerated that more than you originally thought, what's the current outlook for marketing spend growth over the next year?

Michael Mathews

Let me just go back and talk about it. A quarter ago, as you guys I'm sure remember, we were able to deliver enrollment growth in the over 30 percentile enrollments year-over-year. And our marketing spend was an unbelievable minus 11% year-over-year. We can't sustain that kind of enrollment growth unless we start to significantly increase our marketing spend. So as you saw, this quarter, we made a business decision to grow our marketing spend sequentially by $0.5 million. And as Frank pointed out, that is the difference in terms of your consensus estimate on our EPS relative to what we delivered excluding non-recurring costs. We're going to continue to increase our spend rate as this new fiscal year begins. Right now, I would say that we'll probably increase marketing spend on a sequential basis from Q3 to Q4 by another approximately $300,000.

Austin Moldow

Great. That's really helpful. And shifting to the new campuses, can you talk about the capacity you have with your Pre-Licensure given the amount of students you have in Pre-Req, and the number of clinical seats you expect to be available for them in the near future?

Michael Mathews

So, yes, I'll begin with our Phoenix metro. Back of the envelope, we expect to enroll no more than approximately 1,500 students at any given time in our pre-req, first year pre-req phase. From a matriculation point of view, into our final 2-year core program, we currently enroll on average 30 students per semester. And of course, we have six semesters per year in each of our two campuses. So we have 12 semester starts per annum in Phoenix currently. When we hit maturity with each of our campuses, of which again, we have two, at maturity we'll be somewhere in the vicinity of 750 students in each campus, in the core program. So over time, we would look to have in the Phoenix Metro, a total of approximately 1,500 students across both campuses in our 2-year core program. And again, we would probably have no more than around 1,500 pre-req students on an aggregate basis that basically creates the waterfall for those 30 per semester.

Operator

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

Eric Martinuzzi

I was wondering why on the Aspen University side, why the ARPU declined sequentially?

Michael Mathews

Good afternoon, Eric. I'd have to pull the ARPU from last quarter for Aspen University. And I don't believe we presented it that way. This is the first quarter that we've presented the aggregate ARPU for Aspen University because we collapsed each of the three units together. So I don't think there is a comparative, I don't know where you would get a comparative.

Eric Martinuzzi

I'm just looking at the press release from last quarter, the Q2 breakout. You've got essentially, if you take that bookings number and you back off USU, you come up with the $24.3 million of bookings?

Michael Mathews

The simple math would tell you that because the enrollments were significantly higher last quarter, and if those enrollments were primarily for the Pre-Licensure program, which is the highest LTV of $30,000 per student, that would dictate a higher ARPU. I don't have the numbers in front of me, but that would be your answer.

Eric Martinuzzi

Okay. Well, let me re-ask the question. It would seem then that we had the enrollment growth skewed towards the legacy BSN completion program. Is there a seasonal element that would explain that?

Michael Mathews

No. So the two variables that would equal the ARPU formula quarter-over-quarter would be much higher enrollments overall in the previous quarter, and a higher percentage of Pre-Licensure in that second quarter. So those two factors would alter the ARPU. So yes, you're correct.

Eric Martinuzzi

You've just explained the question I asked, I'm asking you to explain why that was the case because…

Michael Mathews

I did give you the answer. The answer is that we had a higher percentage of Pre-Licensure students in terms of the total enrollments in Q2 versus Q3, and that's what affected the difference in the ARPU. That's the answer.

Eric Martinuzzi

Okay. Why did we choose to ramp up the marketing mid-quarter? In other words, as you gave guidance last quarter, it wasn't on the table, and then mid-quarter you changed your mind.

Michael Mathews

Well, I mean, we were on the doorstep of obviously looking at doing an equity raise. And we were pretty confident we were going to be able to get that done. And we felt like we've had a year's worth of flat marketing spending and it was about time that we started to get more aggressive. I think if you look at our marketing efficiency ratio versus any other company in our space, or frankly, in the business-to-consumer sector, in total, we probably have one of the best ratios that exists. So we're not doing our shareholders justice if we don't start to significantly increase our marketing spend.

Eric Martinuzzi

Okay. And then as far as the profit outlook for the fourth quarter, what's the expectation from an Adjusted EBITDA perspective?

Frank Cotroneo

Well, the only guidance we provided today is we expect the top line to meet or exceed 42% for the fiscal year. We're not providing any bottom line guidance at this time. I know we have said previously that the company expects to remain Adjusted EBITDA positive, and I would reiterate that point.

Operator

And our next question comes from the line of Mike Malouf with Craig Hallum.

Mike Malouf

Great. Thanks for taking my questions and well done on the quarter. If I could focus just a little bit more on the coronavirus with a couple of questions, I know you talked with regards to what's going on in Phoenix. What about with San Diego? What kind of impact would that have on the USU side?

Michael Mathews

Yeah, I mean it's really the same situation. The only time that we have students in the campus would be when we implement our FNP weekend immersions. And so if something happens in San Diego that would cause us to have to alter our plan, we would also look at some TeleHealth approaches -- from a clinical perspective. And so for example, we did get five students at USU in the last 48 hours that have advised us that they can't do their clinical, their FNP clinicals at the planned site. And we're working very diligently to look at some TeleHealth alternatives for them during this interim timeframe. So again, we do have alternatives as to how to handle our clinicals, and again, weekend immersions is something that we could always move them to Phoenix or another metro if necessary for weekend immersions.

Mike Malouf

And then when you were expanding the USU program because of the other campuses, can you give us a sense of timing that will allow you to expand the clinical immersion program to these other campuses?

Michael Mathews

Yeah, great question. So Mike, what we're planning to do is we're going to make our Phoenix metro our first location where we're going to be able to do weekend immersions outside of San Diego. We are in the final stages of completing a lease within our current campus footprint in one of our buildings on the ground floor. We're looking to lease approximately 5,000 square feet to implement FNP immersions in our Phoenix campus. And we're looking to have that available by midyear. Secondly, we'll be ready to implement weekend immersions in Tampa as early as the first week of August when we launch our Pre-Licensure program. And then as you're probably aware, Austin is more like November in terms of when the campus is going to be available.

Mike Malouf

And then just a final question, when you're talking about the Pre-Licensure program, 1,500 students at maturity, what would roughly be the weighted average of your revenue per your student at that point?

Michael Mathews

Well, we've publicly said that our weighted average LTV per student is about $30,000. And that assumes that if we have 1,500 Pre-Licensure students that matriculate at a rate of, say 65%, combined with our core students that we're currently forecasting to graduate in the 90% to 93% range. That's how you back into that $30,000 LTV number.

Operator

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

Mike Grondahl

Just on the Aspen Doctoral program or the USU FNP program, anything new there to kind of call out or update us on?

Michael Mathews

Well, the Aspen Doctoral program is growing very nicely. Our enrollments are up year-over-year by approximately 50%. We've recently increased the call center for our Doctoral group. We previously had eight or nine people, and we're now at 15, and we're expecting to grow the next couple of quarters close to 20 people. So we expect that to continue to grow quite rapidly.

Mike Grondahl

Got it. And did you guys call out how many enrollment advisors you had at the end of the January quarter?

Michael Mathews

We did not. But we're in the 100 range at this point, approximately.

Operator

Thank you. And I'm showing no further questions at this time. So with that, I'll turn the call back over to Chairman and CEO, Michael Mathews, for any further remarks.

Michael Mathews

Thank you everyone for joining our third quarter fiscal call today. And looking forward to talking to you in a couple of months when we do our fourth quarter year end call. Good afternoon.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. And you may now disconnect.