

Business Description

Aspen Group, Inc. is a private, for-profit provider of online post-secondary education classes in the U.S. As of 10/31/2013 Aspen enrolled 2,171 full-time degree seeking students. Approximately 86% of these full-time students are pursuing graduate degrees. The company specializes in online MBA and MSN (Master's in Nursing) programs. The company's proprietary, in-house internet marketing system facilitates comparatively lower tuition offerings and consequently students rely less on federal loan assistance. The university is accredited by the DETC (Distance Education and Technology Council) and the CCNE (Commission on Collegiate Nursing Education). As of 3/15/13 the company retained 38 full-time employees and 91 adjunct professors.

Company Information

Stock Symbol	ASPU
Headquarters	Denver, CO
Stock Price	\$.16
Shares Outstanding	59 mil
Market Capitalization	\$9.5 mil
Book Value	NA
Working Capital	\$.4 mil
Insider Ownership	15%

Financial Data

EPS	CY11	CY12	FY14E	FY15E	FY16E
Jul			(\$0.02A)		
Oct			(\$0.02A)		
Jan			(\$0.01E)		
Apr			(\$0.01E)		
	(\$0.14)	(\$0.17)	(\$0.06E)	\$0.00E	\$0.06E
Revenue	\$4.5	\$5.0	\$4.8	\$9.0	\$14.9
% Chg		12%		83%	65%
Cash	\$1	\$1	(\$3)	(\$2)	\$1
Assets	\$4	\$4	\$2	\$3	\$5
Debt	\$0	\$1	\$2	\$2	\$2
Equity	(\$2)	\$1	(\$3)	(\$3)	\$0

Figures in \$millions except per share data

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ASPEN
UNIVERSITY

Aspen Group, Inc.
OTC: ASPU
DATE: January 22, 2014
PRICE: \$.16

Q2 EPS of (\$.02) matched our estimate despite non-recurring expense items and increased amortization expense related to the September offering.

Q2 Sales of \$.9 million increased 22% YOY but missed our estimate of \$1.1 million due to the timing of new class starts.

Q2 nursing student enrollment increased 28% sequentially to 600 students.

Q2 full-time degree seeking enrollments of 296 was a quarterly corporate record.

Q2 average cost per degree seeking enrollment was the lowest in company history at \$850.

Q2 gross margin improved 440 bps sequentially to 44.2% due to the aforementioned lower enrollment acquisition cost and a 7% sequential increase in average tuition per class start.

The company appears undervalued based on the August takeover multiple of a comparable online nursing program.

The company remains on track with profitability forecasts with positive operating cash flow projected for May 2014.

Key Operating Metrics

	4q11	1q12	2q12	3q12	4q12	Transition 4 months 4/30/2013	7/31/2013	10/31/2013	CY14E	CY15E	CY16E
Regular Rate Students	329	437	551	724	949	1,166	1,348	1,543			
Full-time Degree Students	1,478	1,488	1,502	1,585	1,681	1,875	2,016	2,171	2,300	3,500	5,000
Avg Tuition Per Course	\$496	\$463	\$512	\$537	\$653	\$700					
Legacy Plan Students: lower margin	1,149	1,051	951	861	732	709	668	628			
% Class Starts	75%	67%	58%	45%	36%	26%					
% Tuition Gross Profit	52%	35%	23%	12%	6%	NA					
EBITDA	(\$1.8m)	(\$1.6m)	(\$1m)	(\$1m)	(\$6m)	(\$1m)	(\$8m)	(\$1m)	(\$0.7m)	\$1.3m	\$4.7m

Review of Q2 Results

Q2 EPS of (\$.02) matched our estimate despite non-recurring G&A expenses and new warrant amortization expenses stemming from the September capital raise. Q2 revenues increased 22% YOY to \$885,338 but missed our estimate of \$1,050,000 due principally to the timing of new class starts as revenue is spread out over the duration of the class duration (i.e. 10 weeks).

Q2 gross margin improved 440 bps sequentially to 44.2% despite a sequential decrease in revenue as average tuition per class start increased 7% sequentially. This was below our estimate of 48% due to the lower than expected revenue. Q2 G&A expenses of \$1.6 million missed our estimate of \$1.3 million due principally to one-time expenses of \$143,000.

Nursing school student enrollment increased 28% sequentially and 176% YOY to 600 students. Q2 nursing school revenue of \$381,742 now comprises 43% of total revenue. Aspen's Installment Plan of 3 monthly installments launched in June for graduate students is contributing significantly to uptake due to its unique monetary convenience for the industry.

The company achieved 2 corporate quarterly records in Q2: 296 full-time degree seeking enrollments and average cost per degree-seeking enrollment of \$850.

Outlook

The revenue to enrollment lag experienced this quarter should dissipate next quarter as Q2 new enrollments will be fully accrued in Q3. We expect leverage to continue at the gross margin level as nearly half of cost services relates to internet marketing which will remain fairly fixed at \$240,000 per quarter. Additionally, the negative impact on gross margin from lower-priced legacy enrollments is continuously being diluted with new enrollments at better pricing. We further expect nursing school enrollment momentum to continue based on the company's value proposition augmented by strong demand based on widely publicized nursing shortages and a shifting preference in the healthcare industry for the BSN vs. an Associate's degree. Significant upside resides in possible agreements with healthcare systems which could substantially increase student enrollment over a short period. The company continues to target achieving positive operating cash flow by May 2014. We are maintaining our prior estimates.

Valuation

Based on the August 2013 take-out multiple of Hondros College online nursing program by APEI (American Public Education Inc.), Aspen's stock price appears undervalued. APEI paid \$30,700 per acquired student. Applying this \$30,700 to Aspen's current nursing student enrollment of 600 yields a valuation of \$.25/share assuming a fully diluted share count of 75 million. Please also note that the market places a premium on acquired online programs with "minimal" Title IV (Federal loans) exposure. Hondros College had a high concentration at 75% vs. only 26% for Aspen so the market would most likely add to the suggested \$.25. Additionally the market would most likely add more to the suggested price given the robust nursing enrollment growth (28% sequential). Lastly, this valuation completely excludes Aspen's roughly 1,000 non-nursing full-time enrollments which pay \$11,000 over an 11 course schedule. This is an additional \$11 million of revenue to the potential acquirer and would thus add to the suggested price. Assuming the aforementioned components we deem it reasonable that Aspen would potentially be valued for at least \$.50/share. Furthermore, given that our fully taxed projected EPS growth from 2014 to 2015 is 100%, some growth investors may be willing to pay up to \$1.00/share which equates to the generally recognized PEG threshold ratio of 1.

Income Statement	Four months Ended 4/30/12 (Unaudited)	Q1FY13 Ended 7/31/12	Q2FY13 Ended 10/31/12	Q1FY14 Ended 7/31/13	Q2FY14 Ended 10/31/13	Q3FY14E	Q4FY14E	FY14E	FY15E	FY16E
Revenues	\$745,656	\$698,152	\$727,640	\$929,993	\$885,338	\$ 1,300,000	\$ 1,650,000	\$ 4,765,331	\$ 9,000,000	\$ 14,850,000
YOY % Growth				33.2%	21.7%				88.9%	65.0%
Full-time Degree Students			1,875	2,016	2,171					
Total student body				3,015	3,213					
Cost of Revenue (exclusive of d&a)	\$865,408	\$611,772	\$387,052	\$559,470	\$494,304	\$598,000	\$660,000	\$2,311,774	\$2,880,000	\$4,455,000
Gross Margin (exclusive of d&a)	(\$119,752)	\$86,380	\$340,588	\$370,523	\$391,034	\$702,000	\$990,000	\$2,453,557	\$6,120,000	\$10,395,000
% of Revenue	NA	12.4%	46.8%	39.8%	44.2%	54.0%	60.0%	51.5%	68.0%	70.0%
General and administrative	\$2,123,685	\$1,393,282	\$1,069,042	\$1,373,056	\$1,577,086	\$1,300,000	\$1,325,000	\$5,575,142	\$5,853,899	\$6,439,289
% of Revenue	284.8%	199.6%	146.9%	147.6%	178.1%	100.0%	80.3%	117.0%	65.0%	43.4%
Receivable collateral valuation reserve		\$309,117	\$193,198							
% of Revenue		44.3%	26.6%							
Depreciation and Amortization	\$121,812	\$98,571	\$105,707	\$109,435	\$119,651	\$130,000	\$135,000	\$494,086	\$530,000	\$550,000
% of Revenue	16.3%	14.1%	14.5%	11.8%	13.5%	10.0%	8.2%	10.4%	5.9%	3.7%
Operating Income	(\$2,365,249)	(\$1,714,590)	(\$1,027,359)	(\$1,111,968)	(\$1,305,703)	(\$728,000)	(\$470,000)	(\$3,615,671)	(\$263,899)	\$3,405,711
Add back bad debt	\$32,955	\$51,521	(\$3,045)	\$13,837	\$45,000	\$50,000	\$50,000	\$163,837	\$200,000	\$220,000
Add back D&A	\$121,812	\$98,571	\$105,707	\$109,435	\$119,651	\$130,000	\$135,000	\$494,086	\$530,000	\$550,000
Add back stock-based comp	\$81,605	\$52,701	\$99,360	\$149,356	\$165,000	\$170,000	\$175,000	\$494,086	\$550,000	\$600,000
Adjusted EBITDA	(\$2,128,877)	(\$1,511,797)	(\$825,337)	(\$839,340)	(\$976,052)	(\$378,000)	(\$105,000)	(\$2,463,662)	\$1,016,101	\$4,775,711
% of Revenue									11.3%	32.2%
Interest income	\$672	\$104	\$453	\$289	\$326	\$200	\$175	\$990	\$600	\$400
Interest expense	(\$2,934)	(\$127,784)	(\$229,349)	(\$16,160)	(\$122,695)	(\$6,000)	(\$6,500)	(\$151,355)	(\$25,000)	(\$30,000)
Gain on disposal of property and equipment	\$5,879			\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other income				\$0	\$0	\$0	\$0	\$0	\$0	\$0
Loss due to unauthorized borrowing				\$0	\$0	\$0	\$0	\$0	\$0	\$0
Loss from continuing operations	(\$2,361,632)	(\$1,842,270)	(\$1,256,255)	(\$1,127,839)	(\$1,428,072)	(\$733,800)	(\$476,325)	(\$3,766,036)	(\$288,299)	\$3,376,111
Diluted shares outstanding	21,135,361	35,295,204	35,295,204	58,527,790	58,990,365	59,400,000	59,500,000	59,104,539	59,600,000	60,000,000
Diluted EPS	(\$0.11)	(\$0.05)	(\$0.04)	(\$0.02)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.06)	(\$0.00)	\$0.06

Disclaimers & Disclosures

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Balance Sheet	10/31/2013	7/31/2013	4/30/2013	CY12	CY11
Current assets:					
Cash and cash equivalents	\$ 1,096,690	\$ 641,009	724,982	577,238	766,602
Restricted cash	\$ 265,444	\$ 265,310	265,173	264,992	
Accounts receivable	617,001	493,587	364,788	239,671	215,099
Accounts receivable, secured - related party					772,793
Note receivable from officer, secured - related party					150,000
Prepaid expenses	235,586	350,022	165,426	192,533	103,268
Net assets from disc ops	215,316	257,322	113,822	393,214	632,135
Other current assets				69,000	210
Total current assets	2,430,037	2,007,250	1,634,191	1,736,648	2,640,107
Restricted cash					-
Property and equipment, net	1,302,044	1,289,160	1,263,740	1,211,320	997,109
Courseware, net	151,393	178,124	208,095	253,571	369,831
Accounts receivable, secured - related party	270,478	270,478	270,478	270,478	-
Debt issuance costs, net	316,978				
Other assets	25,181	25,181	25,181	25,181	6,559
Total assets	\$ 4,496,111	\$ 3,770,193	\$ 3,401,685	\$ 3,497,198	\$ 4,013,606
Current liabilities:					
Accounts payable	379,402	431,855	313,405	215,796	414,147
Accrued expenses	115,536	126,462	128,569	75,912	128,303
Deferred revenues	766,983	997,662	1,158,473	1,036,540	835,694
Convertible notes payable, current portion	200,000	200,000	200,000		-
Convertible notes payable, current portion - related party					-
Notes payable, current portion					6,383
Loan payable to stockholders	491	1,000,491	491	491	-
Title IV Funds in Transit	257,378				
Net liabilities from disc ops	319,742	332,817	124,504	226,430	719,107
Other current liabilities				69,000	
Deferred rent, current portion	12,059	11,238	10,418	6,257	4,291
Total current liabilities	2,051,591	3,100,525	1,935,860	1,630,426	2,107,925
Line of credit	244,482	245,482	250,000	250,000	233,215
Loan payable to officer-related party	1,000,000				
Loans payable (includes \$50,000 to related parties)					- 200,000
Convertible notes payable (includes \$50,000 to related parties)	600,000	600,000	600,000	800,000	-
Debenture payable	1,542,597				
Notes payable					- 8,768
Deferred rent	15,093	18,271	21,450	15,017	21,274
Total liabilities	5,453,763	3,964,278	2,807,310	2,695,443	2,571,182
Temporary equity:					
Series A preferred					- 809,900
Series D preferred					- 1,109,268
Series E preferred					- 1,550,817
Total temporary equity					- 3,469,985
Stockholders' equity (deficiency):					
Preferred stock					- -
Series C preferred					- 11,307
Series B preferred					- 368
Common stock	59,190	59,190	58,573	55,244	11,838
Additional paid-in capital	14,294,242	13,662,387	13,345,888	12,153,615	3,275,296
Treasury stock	(70,000)	(70,000)	(70,000)	(70,000)	
Accumulated deficit	(15,241,084)	(13,845,662)	(12,740,086)	(11,337,104)	(5,326,370)
Total stockholders' equity (deficiency)	(957,652)	(194,085)	594,375	801,755	(2,027,561)
Total liabilities and stockholders' equity (deficiency)	\$ 4,496,111	\$ 3,770,193	\$ 3,401,685	\$ 3,497,198	\$ 4,013,606