

Business Description

Aspen Group, Inc. is a private, for-profit provider of online post-secondary education classes in the U.S. As of 7/31/2013 Aspen enrolled 2,016 full-time degree seeking students. Approximately 87% 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	\$.21
Shares Outstanding	59 mil
Market Capitalization	\$12 mil
Book Value	NA
Working Capital	\$.7 mil
Insider Ownership	15%

Financial Data

EPS	CY 11	CY 12	FY 14E	FY 15E	FY 16E
Jul			(\$0.02A)		
Oct			(\$0.02E)		
Jan			(\$0.01E)		
Apr			(\$0.01E)		
	(\$0.14)	(\$0.17)	(\$0.06E)	\$0.00E	\$0.06E
Revenue	\$4.5	\$5.0	\$4.9	\$9.0	\$14.9
% Chg		12%		83%	65%
Cash	\$1	\$1	(\$2)	(\$1)	\$3
Assets	\$4	\$4	\$3	\$3	\$5
Debt	\$0	\$1	\$2	\$2	\$2
Equity	(\$2)	\$1	(\$2)	(\$2)	\$1

Figures in \$millions except per share data

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ASPEN
UNIVERSITY

Aspen Group, Inc.
OTC: ASPU
DATE: September 24, 2013
PRICE: \$.21

Q1 EPS of (\$.02) matched our estimate and increased from (\$.05) in the prior year due to increased sales and significant gross margin expansion.

Q1 New Enrollments increased 19% sequentially despite a seasonally weak quarter.

Q1 Sales grew 33% YOY primarily due to a 232% increase in nursing education revenue.

Q1 Gross margin improved YOY from 12.4% to 39.8% due to higher average tuition rates and less impact from lower priced legacy tuition plans.

Q1 Adjusted EBITDA loss narrowed YOY by \$.7 million to (\$.8) million.

Q2 is tracking for record new enrollments in excess of 300 students.

The stock appears undervalued based on recent acquisition activity in the industry.

We are maintaining our prior sales and EPS estimates. The company remains on track to reach Adjusted EBITDA profitability by the middle of CY 2014.

Key Operating Metrics

	4q11	1q12	2q12	3q12	4q12	Transition 4 months 4/30/2013	7/31/2013	CY14E	CY15E	CY16E
Regular Rate Students	329	437	551	724	949	1,166	1,348			
Full-time Degree Students	1,478	1,488	1,502	1,585	1,681	1,875	2,016	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			
% Class Starts	75%	67%	58%	45%	36%	26%				
% Tuition Gross Profit	52%	35%	23%	12%	6%	NA				
EBITDA	(\$1.8m)	(\$1.6m)	(\$1m)	(\$1m)	(\$0.6m)	(\$1m)	(\$0.8m)	(\$0.7m)	\$1.3m	\$4.7m

Review of Q1 Results

Q1 EPS of (\$.02) matched our estimate and improved from (\$.05) in the prior year period due to increased sales and gross margin improvement from 12.4% to 39.8%. Q1 sales grew 33% YOY to \$929,993 and exceeded our estimate of \$800,000. The sales increase was driven primarily by nursing program revenue which grew over \$150,000 YOY to \$231,980. Please note that Q1 is typically the company's weakest quarter due to summer seasonality.

The company's growth calculus of increasing its higher margin nursing enrollment while leveraging marketing spending remains on track as overall new enrollment increased 19% sequentially and advertising expense was flat. The company continues to significantly chip away at its adjusted EBITDA losses reporting a YOY adjusted EBITDA improvement of \$.7 million. The company remains on pace to achieve adjusted EBITDA profitability by mid CY 2014.

On an YTD basis for calendar year 2013 the company has increased enrollment by 24% while increasing revenue by 50% to \$2.2 million. This performance is in stark contrast to the online post-secondary education industry in general which has seen declining enrollment. Aspen's focus on graduate students (86% of full-time degree students) ensures higher course completion rates and less defaults as the students tend to be working adults.

The company also reported that it has signed a term sheet this month to raise additional capital. While due diligence by the respective parties is still pending, the tentative agreement calls for \$2.25 million of gross proceeds in the form of a convertible debenture over a term of 18 months with an exercise price of \$.3325. The capital raise and existing cash balance appear sufficient to fund working capital over the short-term as cash burn is steadily improving due to better EBITDA performance.

Outlook

The company reports that the key growth catalysts within the business model have kept improving in the first 2 months of Q2. New enrollments in Q2 are thus far very strong and are on pace to exceed 300 for the first time ever in company quarterly history. The company also reports that average tuition rates for Q2 have thus far increased 8% sequentially suggesting that sizeable gross margin improvement should continue. We are maintaining our prior estimates and believe topline upside relative to our estimates is possible given the recent quarterly performance.

Valuation

As referenced in our initiation report, the market is placing a premium on online education companies with low Title IV (Federal Loan) exposure and a concentration in healthcare. Aspen meets both criteria. We additionally cited the recent acquisition of Hondros College's online nursing school by APEI (American Public Education, Inc.) which represents a highly accurate valuation comparison. Extrapolating the purchase price of this deal paid per nursing student and applying a modest multiple to the non-nursing portion of Aspen's business yielded a fully-diluted valuation of \$.52/share for Aspen. This possible valuation does not assume any future performance but rather trailing performance. Additionally, a PEG (Price/Earnings to Growth) analysis on our calendar year EPS forecasts for 2014 and 2015 suggested that growth investors may be willing to pay as much as \$1.00/share for Aspen shares assuming a PEG ratio of 1x. We believe a corporate partnership with a major healthcare system offers the greatest upside potential. Such a partnership could significantly increase student enrollment over a short timeframe and enable substantial cost leveraging.

Income Statement	Q1FY13 Ended 7/31/12	Four months Ended 4/30/13	Q1FY14 Ended 7/31/13	Q2FY14E	Q3FY14E	Q4FY14E	FY14E	FY15E	FY16E
Revenues	\$698,152	\$1,229,096	\$929,993	\$1,050,000	\$1,300,000	\$1,650,000	\$4,929,993	\$9,000,000	\$14,850,000
YOY % Growth			33.2%					82.6%	65.0%
Full-time Degree Students		1,875	2,016						
Total student body		2,826	3,015						
Cost of Revenue (exclusive of d&a)	\$611,772	\$749,930	\$559,470	\$546,000	\$598,000	\$660,000	\$2,363,470	\$2,880,000	\$4,455,000
Gross Margin (exclusive of d&a)	\$86,380	\$479,166	\$370,523	\$504,000	\$702,000	\$990,000	\$2,566,523	\$6,120,000	\$10,395,000
% of Revenue	12.4%	39.0%	39.8%	48.0%	54.0%	60.0%	52.1%	68.0%	70.0%
General and administrative	\$1,393,282	\$1,670,812	\$1,373,056	\$1,275,000	\$1,300,000	\$1,325,000	\$5,273,056	\$5,536,709	\$6,090,380
% of Revenue	199.6%	135.9%	147.6%	121.4%	100.0%	80.3%	107.0%	61.5%	41.0%
Receivable collateral valuation reserve	\$309,117								
% of Revenue	44.3%								
Depreciation and Amortization	\$98,571	\$159,269	\$109,435	\$125,000	\$130,000	\$135,000	\$499,435	\$530,000	\$550,000
% of Revenue	14.1%	13.0%	11.8%	11.9%	10.0%	8.2%	10.1%	5.9%	3.7%
Operating Income	(\$1,714,590)	(\$1,350,915)	(\$1,111,968)	(\$896,000)	(\$728,000)	(\$470,000)	(\$3,205,968)	\$53,291	\$3,754,620
Add back bad debt	\$51,521	\$37,000	\$13,837	\$45,000	\$50,000	\$55,000	\$163,837	\$200,000	\$220,000
Add back D&A	\$98,571	\$159,269	\$109,435	\$125,000	\$130,000	\$135,000	\$499,435	\$530,000	\$550,000
Add back stock-based comp	\$52,701	\$154,062	\$149,356	\$165,000	\$170,000	\$175,000	\$499,435	\$550,000	\$600,000
Adjusted EBITDA	(\$1,511,797)	(\$1,000,584)	(\$839,340)	(\$561,000)	(\$378,000)	(\$105,000)	(\$2,043,261)	\$1,333,291	\$5,124,620
% of Revenue								14.8%	34.5%
Interest income	\$104	\$330	\$289	\$225	\$200	\$175	\$889	\$600	\$400
Interest expense	(\$127,784)	(\$6,737)	(\$16,160)	(\$5,500)	(\$6,000)	(\$6,500)	(\$34,160)	(\$25,000)	(\$30,000)
Gain on disposal of property and equipment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Income	\$66,267	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Loss due to unauthorized borrowing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Loss from continuing operations	(\$1,842,270)	(\$1,291,059)	(\$1,127,839)	(\$901,275)	(\$733,800)	(\$476,325)	(\$3,239,239)	\$28,891	\$3,725,020
Diluted shares outstanding	35,295,204	56,089,884	58,527,730	59,300,000	59,400,000	59,500,000	59,181,948	59,600,000	60,000,000
Diluted EPS	(\$0.05)	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.05)	\$0.00	\$0.66
Balance Sheet									
Cash		\$724,982	\$641,009				(\$2,065,387)	(\$1,606,496)	\$2,518,525
DSO's		36	48						
Assets		\$3,401,685	\$3,770,193				\$2,000,000	\$3,000,000	\$5,000,000
Debt		\$1,050,000	\$845,482				\$2,050,000	\$2,050,000	\$2,050,000
Equity		\$594,375	(\$194,085)				(\$2,644,864)	(\$2,615,973)	\$1,109,048
Cash Flow									
Net Income	(\$1,842,270)	(\$1,291,055)	(\$1,127,839)				(\$3,239,239)	\$28,891	\$3,725,020
Working Capital	(\$132,422)	\$21,783	(\$183,117)				(\$300,000)	(\$350,000)	(\$400,000)
Depreciation	\$98,571	\$159,269	\$109,435	\$125,000	\$130,000	\$135,000	\$499,435	\$530,000	\$550,000
Stock Comp	\$52,701	\$154,062	\$149,356				\$499,435	\$550,000	\$600,000
Cap Ex	(\$91,661)	(\$166,214)	(\$104,385)				(\$250,000)	(\$300,000)	(\$350,000)
Free Cash Flow	(\$1,915,081)	(\$1,122,155)	(\$1,156,550)				(\$2,790,369)	\$458,891	\$4,125,020

Disclaimers & Disclosures

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Balance Sheet	7/31/2013	4/30/2013	CY12
Current assets:			
Cash and cash equivalents	\$ 641,009	724,982	577,238
Restricted cash	\$ 265,310	265,173	264,992
Accounts receivable	493,587	364,788	239,671
Accounts receivable, secured - related party			
Note receivable from officer, secured - related party			
Prepaid expenses	350,022	165,426	192,533
Net assets from disc ops	257,322	113,822	393,214
Other current assets			69,000
Total current assets	2,007,250	1,634,191	1,736,648
Restricted cash			
Property and equipment, net	1,289,160	1,263,740	1,211,320
Courseware, net	178,124	208,095	253,571
Accounts receivable, secured - related party	270,478	270,478	270,478
Other assets	25,181	25,181	25,181
Total assets	\$ 3,770,193	\$ 3,401,685	\$ 3,497,198
Current liabilities:			
Accounts payable	431,855	313,405	215,796
Accrued expenses	126,462	128,569	75,912
Deferred revenues	997,662	1,158,473	1,036,540
Convertible notes payable, current portion	200,000	200,000	
Convertible notes payable, current portion - related party			
Notes payable, current portion			
Loan payable to stockholders	1,000,491	491	491
Net liabilities from disc ops	332,817	124,504	226,430
Other current liabilities			69,000
Deferred rent, current portion	11,238	10,418	6,257
Total current liabilities	3,100,525	1,935,860	1,630,426
Line of credit	245,482	250,000	250,000
Loans payable (includes \$50,000 to related parties)			-
Convertible notes payable (includes \$50,000 to related parties)	600,000	600,000	800,000
Notes payable			-
Deferred rent	18,271	21,450	15,017
Total liabilities	3,964,278	2,807,310	2,695,443
Temporary equity:			
Series A preferred			-
Series D preferred			-
Series E preferred			-
Total temporary equity			-
Stockholders' equity (deficiency):			
Preferred stock			-
Series C preferred			-
Series B preferred			-
Common stock	59,190	58,573	55,244
Additional paid-in capital	13,662,387	13,345,888	12,153,615
Treasury stock	(70,000)	(70,000)	(70,000)
Accumulated deficit	(13,845,662)	(12,740,086)	(11,337,104)
Total stockholders' equity (deficiency)	(194,085)	594,375	801,755
Total liabilities and stockholders' equity (deficiency)	\$ 3,770,193	\$ 3,401,685	\$ 3,497,198