

Education Management Said to Be Sold for \$3.4 Billion

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The Education Management Corporation, the nation's second-largest commercial school and education company, is planning to announce today that it has agreed to be sold to Providence Equity Partners and the private equity arm of Goldman Sachs for \$3.4 billion in cash, according to executives involved in the deal.

The transaction is the largest buyout in the for-profit education sector and could presage a wave of similar deals. Education Management, which manages private post-secondary education institutions around the country, currently has about 72,000 students. Its best-known schools are its Art Institutes, which have 31 campuses across North America that offer various programs, including master's, bachelor's and associate's degree programs as well as nondegree programs in design, media arts, fashion and culinary arts.

Growth in enrollment at for-profit colleges is outpacing that at traditional ones. In 2003, the last year for which statistics were available, 703,000 of the 16.9 million students at all degree-granting institutions were attending for-profit colleges.

The deal comes as Congress has repealed a law that forced all accredited schools to deliver at least half their courses on a campus, instead of online, to qualify for federal student aid. The change in law is expected to be a boon for companies like Education Management because it can now aggressively expand and market its online learning programs, a market that analysts say is poised to explode. Education Management now educates only 4,000 students online annually.

Despite the potential for growth, the commercial education industry has been tarnished by allegations of fraud in some parts, though not at Education Management. In May, John P. Higgins Jr., the Education Department's inspector general, testified that 74 percent of his fraud cases involved for-profit schools.

Under the terms of the deal, Providence and Goldman will pay \$43 a share in cash, representing a premium of 16.3 percent over the price of Education Management's shares as of Friday, which closed down 11 cents at \$36.98 a share. The transaction requires approval from shareholders and regulators, including the Education Department, accrediting agencies and state licensing boards.

Providence, which is best known for its high-profile media investments like MGM and Warner Music. The transaction will be financed by Credit Suisse, Goldman Sachs, Merrill Lynch and Bank of America.

Merrill Lynch served as the financial adviser to Education Management and Kirkpatrick & Lockhart Nicholson Graham served as its legal adviser. Merrill Lynch and Lazard provided fairness opinions to Education Management.