

PITTSBURGH, Oct. 30, 2013 /PRNewswire/ -- Education Management Corporation (NASDAQ: [EDMC](#)), one of the largest providers of post-secondary education in North America, today reported its financial results for the three months ended Sept. 30, 2013. Net revenues during the quarter were \$580.4 million, a decrease of 4.8 percent from the prior year quarter, and the company reported a net loss of \$9.5 million, or \$(0.08) per diluted share, as compared to a net loss of \$13.1 million, or \$(0.11) per diluted share, in the prior year quarter.

"Our faculty and staff across the system are doing an extraordinary job managing through a

period of unprecedented change in higher education," said Edward H. West, Education Management's president and CEO. "We remain dedicated to providing our students an education that allows them to build careers as we maintain our focus on investing in new programs, process optimization, and efficiency improvements to support access, affordability, and achievement.

"The first quarter results were in-line with our expectations, and we are encouraged by the recent October start for The Art Institute campuses as new student enrollment was slightly positive year-over-year. In addition, we experienced an improvement of over two percentage points in our 180-day new student cohort retention rate in the first quarter, as compared to the prior year period."

Financial and Operational Highlights

Financial and operational highlights for the first quarter of fiscal 2014 included the following:

- Total new students were approximately 30,770, a decrease of 6.1 percent from approximately 32,770 new students in the first quarter of fiscal 2013.
- For the three months ended Sept. 30, 2013, average enrolled student body was approximately 117,720, an 8.5 percent decline from 128,710 in the prior year quarter. Net revenues were \$580.4 million, a decrease of 4.8 percent from \$609.6 million recorded in the first quarter of fiscal 2013. The revenue decrease was primarily due to the decline in average enrolled student body which was partially offset by additional revenue days and higher average registered credits per student recognized during the current quarter as compared to the prior year quarter.
- The company recorded a net loss of \$9.5 million, or \$(0.08) per diluted share, compared to a net loss of \$13.1 million, or \$(0.11) per diluted share, for the prior year quarter. The company incurred \$1.6 million (or \$1.0 million net of tax) and \$9.1 million (or \$5.5 million net of tax) of restructuring charges in the current quarter and the prior year quarter, respectively,

as well as a loss on an asset disposal of

\$4.6 million

(

\$2.7 million

net of tax) in the prior year quarter. Excluding these expenses, the net loss would have been

\$8.5 million

, or

\$(0.07)

per diluted share, in the current quarter compared to

\$4.9 million

, or

\$(0.04)

per diluted share, in the prior year quarter.

- Earnings before interest, taxes and depreciation and amortization ("EBITDA") was \$50.5 million

in the current quarter compared to

\$53.8 million

in the prior year quarter. After adjusting for restructuring charges incurred in each quarter as noted above, EBITDA would have been

\$52.2 million

in the current quarter compared to

\$62.9 million

in the prior year quarter.

- Cash flows provided by operating activities for the three months ended Sept. 30, 2013 were \$127.2 million compared to \$156.6 million for the three months ended Sept. 30, 2012. The decrease in cash flow from operations in the current quarter compared to the prior year quarter was primarily due to lower operating results and delays in financial aid receipts that were collected in October 2013.

- At Sept. 30, 2013, cash and cash equivalents were \$163.3 million, compared to \$212.0 million at Sept. 30, 2012.

- On a cash basis, capital expenditures were \$17.3 million, or 3.0 percent of net revenues, for the three months ended Sept. 30, 2013 compared to \$20.5 million

, or 3.4 percent of net revenues, for the three months ended Sept. 30, 2012.

Fiscal 2014 Outlook

For the fiscal year ending June 30, 2014, capital expenditures are projected to be between \$80 million and \$90 million

, compared to

\$83.2 million

in the fiscal year ended

June 30

, 2013. Based on current assumptions regarding market conditions and excluding restructuring and other special charges that have been or may be incurred, including charges which will be incurred in the second fiscal quarter associated with restructurings affecting less than two percent of the company's workforce, the company provided the following outlook for fiscal 2014.

Reconciliation of Fiscal Year 2014 Second Quarter and Annual Outlook of Net Income to EBITDA

(Dollars in millions, except earnings per share) (Unaudited)

Fiscal 2014 Outlook –

2nd Quarter:

For the Three Months Ending

December 31, 2013

Low

High

Earnings per diluted share

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\$

0.07

\$

0.08

Net income

\$

9

\$

10

Income tax expense

6

8

Net interest expense

32

32

Depreciation and amortization

38

38

EBITDA

\$

85

\$

88

Fiscal 2014 Outlook –

Annual:

For the Twelve Months Ending

June 30, 2014

Low

High

Earnings per diluted share

\$

0.21

\$

0.28

Earnings per diluted share excluding expenses related to restructuring charges

\$

0.22

\$

0.29

Net income

\$

27

\$

36

Expenses related to restructuring charges, net of tax

1

1

Net income excluding expenses related to restructuring charges

\$

28

\$

37

Income tax expense

19

25

Net interest expense

126

126

Depreciation and amortization

152

152

EBITDA excluding expenses related to restructuring charges

\$

325

\$

340

The above discussion of the company's fiscal 2014 outlook includes information that could constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. As more fully described below under the heading "Cautionary Statement,"

these and other forward-looking statements are based on information currently available to management and involve estimates, assumptions, risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially and unpredictably from any future results, performance or achievements expressed or implied by such forward-looking statements.

The company's quarterly revenues and income fluctuate primarily as a result of the pattern of student enrollments, and its first fiscal quarter is typically the lowest revenue quarter of the fiscal year due to student vacations. However, the seasonality of the company's business has decreased over the last several years, primarily due to the percentage of students enrolling in online programs, which generally experience less seasonal fluctuation than campus-based programs.

The presentation of EBITDA as well as the presentations excluding certain expenses, do not comply with U.S. generally accepted accounting principles ("GAAP"). For an explanation of EBITDA and EBITDA and net income excluding certain expenses, together with a reconciliation to net income, which is the most directly comparable GAAP financial measure, see the Non-GAAP Financial Measures disclosure in the financial tables section below.

Conference Call and Webcast

Education Management Corporation will host a conference call to discuss its fiscal 2014 first quarter results on Thursday, Oct. 31, 2013 at 9 a.m. (Eastern Time). Those wishing to participate in this call should dial 412-317-6789 approximately 10 minutes prior to the start of the call. A listen-only audio of the conference call will also be broadcast live over the Internet at www.edmc.edu . A replay

of the conference call will be available at www.edmc.edu for up to one year.

EDUCATION MANAGEMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In thousands, except per share amounts)

For the Three Months Ended September 30,

2013

2012

% Change

Net revenues

\$

580,380

\$

609,564

(4.8)

%

Costs and expenses:

Educational services (1)

357,688

381,296

(6.2)

%

General and administrative (2)

172,169

174,492

(1.3)

%

Depreciation and amortization⁽²⁾

38,605

44,145

(12.5)

%

Total costs and expenses

568,462

599,933

(5.2)

%

Income before interest and income taxes

11,918

9,631

23.7

%

Interest expense, net

31,866

31,452

1.3

%

Loss before income taxes

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(19,948)

(21,821)

8.6

%

Income tax benefit

(10,434)

(8,728)

19.5

%

Net loss

\$

(9,514)

\$

(13,093)

27.3

%

Loss per share:

Basic

\$

(0.08)

\$

(0.11)

Diluted

\$

(0.08)

\$

(0.11)

Weighted average number of shares outstanding:

Basic

124,657

124,478

Diluted

124,657

(1) Includes restructuring charges of \$0.8 million and \$8.2 million in the three months ended Sept. 30, 2014 and 2015, respectively.

(2) Includes restructuring charges of \$0.8 million and \$0.9 million in the three months ended Sept. 30, 2011.

(3) Includes a \$4.6 million charge in the three months ended Sept. 30, 2012 related to software assets that

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)

September **30, 2013**

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June □ **30, 2013**

September □ **30, 2012**

(Unaudited)

(Unaudited)

Assets

Current assets:

Cash and cash equivalents

\$

163,307

\$

130,695

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\$

211,956

Restricted cash

273,037

271,340

277,376

Total cash, cash equivalents and restricted cash

436,344

402,035

489,332

Student receivables, net of allowance of \$181,230, \$174,760

340,858

206,406

234,777

Notes, advances and other receivables

63,887

32,547

30,856

Deferred income taxes

76,927

76,927

102,668

Prepaid income taxes

28,350

20,854

15,789

Other current assets

35,619

32,850

50,897

Total current assets

981,985

771,619

924,319

Property and equipment, net

503,350

525,625

626,337

Other long-term assets

67,063

48,524

52,621

Intangible assets, net

300,141

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300,435

329,658

Goodwill

669,090

669,090

963,550

Total assets

\$

2,521,629

\$

2,315,293

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\$

2,896,485

Liabilities and shareholders

equity

Current liabilities:

Current portion of long-term debt

\$

11,977

\$

12,076

\$

12,076

Revolving credit facility

—

75,000

—

Accounts payable

32,493

32,559

30,168

Accrued liabilities

147,355

157,417

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154,342

Unearned tuition

421,721

113,371

168,601

Advance payments

89,235

95,675

238,957

Total current liabilities

702,781

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486,098

604,144

Long-term debt, less current portion

1,272,788

1,273,164

1,450,583

Deferred income taxes

70,419

70,316

110,053

Deferred rent

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196,020

201,202

198,449

Other long-term liabilities

32,636

34,414

46,429

Shareholders '

equity:

Common stock, at par

1,437

1,435

1,434

Additional paid-in capital

1,799,788

1,794,846

1,781,345

Treasury stock, at cost

(328,605)

(328,605)

(328,605)

Accumulated deficit

(1,213,450)

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(1,203,936)

(949,053)

Accumulated other comprehensive loss

(12,185)

(13,641)

(18,294)

Total shareholders' equity

246,985

250,099

486,827

Total liabilities and shareholders' equity

\$

2,521,629

\$

2,315,293

\$

2,896,485

EDUCATION MANAGEMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

For the Three Months

Ended September 30,

2013

2012

Cash flows from operating activities:

Net loss

\$

(9,514)

\$

(13,093)

Adjustments to reconcile net loss to net cash flows from

□ **operating activities:**

Depreciation and amortization of property and equipment

37,087

42,616

Amortization of intangible assets

1,518

1,529

Bad debt expense

45,063

48,931

Amortization of debt issuance costs

3,618

1,280

Share-based compensation

4,174

3,613

Non cash adjustments related to deferred rent

(4,441)

(3,622)

Amortization of deferred gains on sale-leaseback transactions

(563)

—

Changes in assets and liabilities:

Restricted cash

(1,697)

(9,496)

Receivables

(58,003)

(91,299)

Reimbursements for tenant improvements

73

1,202

Inventory

(377)

(1,654)

Other assets

(1,688)

(1,144)

Purchase of loans

(3,315)

—

Accounts payable

904

(21,896)

Accrued liabilities

(16,322)

10,624

Unearned tuition

(12,992)

52,324

Advance payments

143,682

136,662

Total adjustments

136,721

169,670

Net cash flows provided by operating activities

127,207

156,577

Cash flows from investing activities:

Expenditures for long-lived assets

(17,332)

(20,541)

Reimbursements for tenant improvements

(73)

(1,202)

Net cash flows used in investing activities

(17,405)

(21,743)

Cash flows from financing activities:

Payments under revolving credit facility

(75,000)

(111,300)

Issuance of common stock

770

—

Principal payments on other long-term debt

(3,043)

(2,885)

Net cash flows used in financing activities

(77,273)

(114,185)

Effect of exchange rate changes on cash and cash equivalents

83

299

Net change in cash and cash equivalents

32,612

20,948

Cash and cash equivalents, beginning of period

130,695

191,008

Cash and cash equivalents, end of period

\$

163,307

\$

211,956

Cash paid (received) during the period for:

Interest (including swap settlement)

\$

38,475

\$

22,044

Income taxes, net of refunds

(2,477)

1,059

As of September 30,

Noncash investing activities:

2013

2012

Capital expenditures in current liabilities

\$

7,606

\$

9,050

EDUCATION MANAGEMENT CORPORATION AND SUBSIDIARIES RECONCILIATION OF NON-GAAP FINANCIAL MEASURES (Unaudited)

The company reports results in four segments - The Art Institutes, Argosy University, Brown Mackie Colleges and South University. The company evaluates segment performance based on EBITDA excluding certain expenses. Adjustments to reconcile segment results to consolidated results are included under the caption "Corporate and Other," which primarily includes unallocated corporate activity.

EBITDA, a measure used by management to measure operating performance, is defined as net income before net interest expense, income taxes and depreciation and amortization. EBITDA is not a recognized term under GAAP and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Management believes EBITDA is helpful in highlighting trends because EBITDA excludes the results of decisions that are outside the control of operating management and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. Management also presents diluted earnings per share, net loss and EBITDA after adjusting for certain expenses, which also are non-GAAP financial measures. Management believes this presentation is also helpful in highlighting trends in our business because it excludes certain expenses management believes are not indicative of ongoing operations. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more

complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, this presentation of EBITDA may not be comparable to similarly titled measures of other companies. A reconciliation of EBITDA excluding certain expenses by segment to consolidated net loss to consolidated net loss, excluding certain expenses is detailed below:

Segment Information and Reconciliation of EBITDA to Net Loss to

Net Loss Excluding Certain Expenses

(In thousands, except per share amounts) (Unaudited)

For the Three Months Ended September 30,

2013

2012

% Change

Net revenues:

The Art Institutes

\$

356,516

\$

380,139

(6.2)

%

Argosy University

83,148

81,920

1.5

%

Brown Mackie Colleges

70,186

73,972

(5.1)

%

South University

70,530

73,533

(4.1)

%

Total EDMC

580,380

609,564

(4.8)

%

EBITDA excluding certain expenses:

The Art Institutes

59,097

69,419

(14.9)

%

Argosy University

3,385

170

N/M

Brown Mackie Colleges

6,284

9,206

(31.7)

%

South University

5,392

7,232

(25.4)

%

Corporate and other

(21,990)

(23,106)

4.8

%

Total EDMC

52,168

62,921

(17.1)

%

Reconciliation to EBITDA:

Restructuring

1,645

9,145

N/M

EBITDA

50,523

53,776

(6.0)

%

Reconciliation to net loss:

Depreciation and amortization

38,605

44,145

(12.5)

%

Net interest expense

31,866

31,452

1.3

%

Income tax benefit

(10,434)

(8,728)

19.5

%

Net loss

\$

(9,514)

\$

(13,093)

27.3

%

Restructuring, net of tax

987

5,488

(82.0)

%

Loss on disposal of asset, net of tax

—

2,753

N/M

Net loss, excluding certain expenses

\$

(8,527)

\$

(4,852)

(75.7)

%

Diluted loss per share

\$

(0.08)

\$

(0.11)

Diluted loss per share, excluding certain expenses

\$

(0.07)

\$

(0.04)

New Student Enrollment

For the Three Months Ended September 30,

2013

2012

% Change

The Art Institutes

15,570

16,930

(8.0)%

Argosy University

5,750

5,890

(2.4)%

Brown Mackie Colleges

4,800

5,040

(4.8)%

South University

4,650

4,910

(5.3)%

Total EDMC

30,770

32,770

(6.1)%

The new student enrollment data shown above includes the number of new students who enrolled in fully online programs at The Art Institute of Pittsburgh, Argosy University and South University. Total new students who enrolled in fully online programs for the three months ended Sept. 30, 2013 were approximately 7,480 as compared to 8,650 in the three months ended Sept. 30, 2012.

Average Enrolled Student Body

For the Three Months Ended September 30,

2013

2012

% Change

The Art Institutes

61,210

66,870

(8.5)%

Argosy University

23,200

24,620

(5.8)%

Brown Mackie Colleges

15,950

17,410

(8.4)%

South University

17,360

19,810

(12.4)%

Total EDMC

117,720

128,710

(8.5)%

Average enrolled student body is the three month average of the unique students who met attendance requirements within each month of the quarter. The data above includes the number of students enrolled in fully online programs at The Art Institute of Pittsburgh, Argosy University and South University. The average enrolled student body in fully online programs was approximately 29,570 for the three months ended Sept. 30, 2013 as compared to 33,590 in the three months ended Sept. 30, 2012.

For October 2013, starting student body enrollment for Total EDMC was approximately 125,560, a decrease of 7.4 percent from October 2012. Starting student body reflects the campus-based student census after the add/drop period for the first month of the fiscal quarter plus the average of fully online students who met attendance requirements in the third month of the prior fiscal quarter.

About Education Management Corporation

Education Management Corporation (www.edmc.edu), with approximately 125,560 students as of October 2013, is among the largest providers of post-secondary education in North America

, based on student enrollment and revenue, with a total of 110 locations in 32 U.S. states and Canada. The company offers academic programs to students through campus-based and online instruction, or through a combination of both. The company is committed to offering quality academic programs and strive to improve the learning experience for our students. Its educational institutions offer students the opportunity to earn undergraduate and graduate degrees and certain specialized non-degree diplomas in a broad range of disciplines, including media arts, health sciences, design, psychology and behavioral sciences, culinary, business, fashion, legal, education and information technology.

Cautionary Statement

This press release includes information that could constitute forward-looking statements with the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are based on information currently available to management, concern the company's strategy, plans, intentions or expectations and typically contain words such as "anticipates," "believes," "estimates," "expects," "intends," "may," "will," "should," "seeks," "approximately," "plans," "projects," or similar words, although the absence of such words does not mean that any particular statement is not forward-looking. All of the statements included in this press release that relate to estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results, including the second quarter and annual outlook for fiscal 2014, and including statements regarding expected enrollment, revenue, expense levels, capital expenditures and earnings, are forward-looking statements, as are any statements concerning the company's expected future operations and performance and other future developments. These and other forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially and unpredictably from any future results, performance or achievements expressed or implied by such forward-looking statements. The company derives many of its forward-looking statements from its operating budgets and forecasts, which are based upon many detailed assumptions, and the company cautions that it is very difficult to predict the impact of unknown factors, and impossible to anticipate all factors, that could affect its actual results. Some of the factors that the company believes could affect its results and that could cause actual results to differ materially from expectations include, but are not limited to: the timing and magnitude of student enrollment and changes in student mix, including the relative proportions of campus-based and online students enrolled in its programs; changes in average registered credits taken by students; student retention; the company's ability to maintain eligibility to participate in Title IV programs; changes in government spending; other changes in its students' ability to access federal and state financial aid, as well as obtain loans from third-party lenders; difficulties the company may face in growing its academic programs; increased or unanticipated legal and regulatory costs; the success of cost-cutting initiatives; the results of program reviews and audits; changes in accreditation standards; the implementation of new operating procedures for the company's fully online programs; the potential impact of the draft gainful employment regulation issued by the U. S. Department of Education on August 30, 2013 ; adjustments to the company's programmatic offerings to comply with the 90/10 rule; its high degree of leverage and ability to generate sufficient cash to service all of its debt obligations and other liquidity needs; market and credit risks associated with the post-secondary education industry, adverse media coverage of the industry and the overall condition of the industry; changes in the overall U.S. or global economies and access to credit and capital markets; the effects of war, terrorism, natural disasters or other catastrophic events and other risks affecting the company, including but not limited to those described in its periodic reports filed with the Securities Exchange Commission pursuant to the Securities Exchange Act of 1934. Education Management does not undertake any obligation to update any forward-looking statements except as required by securities laws.

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