

2 EVALUATING MANAGEMENT

Company EDUCATION MANAGEMENT CORP

(EDMC)

04/06/05

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	LAST 5	TREND	
		1995	1990	1997	1990	1999	2000	2001	2002	2003	2004	YEAR AVG.	UP	DOWN
Α	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)		3.9	9.0	11.1	12.2	12.2	12.8	13.7	14.8	15.3	13.8	UP	
В	% Earned on Equity (E/S ÷ Book Value)		NMF	17.9	18.9	18.6	19.2	17.6	12.5	13.4	14.3	15.4		DOWN

3 PRICE-EARNINGS HISTORY as an indicator of the future This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

		PRESE		28.150	HIGH THIS YEAR	36.620	LOW TH		22.810
		A	ICE B	C Earnings	D Brico For	E Pingo Rotio	F Dividend	G	Н
	Year	HIGH	LOW	- Per Share	HIGH A ÷ C	nings Ratio LOW B ÷ C	Per Share	% Payout F ÷ C X 100	% High Yield F ÷ B X 100
	2000	10.7	4.3	0.38	28.5	11.5	0.000	0.0	0.0
2	2001	20.6	8.8	0.47	44.3	18.8	0.000	0.0	0.0
	2002	23.0	11.6	0.62	37.4	18.9	0.000	0.0	0.0
·	2003	26.7	15.6	0.80	33.6	19.7	0.000	0.0	0.0
I	2004	36.6	26.4	1.03	35.6	25.6	0.000	0.0	0.0
	TOTAL		66.7		97.7	56.8		0.0	
1	AVERAGE		13.3		32.6	18.9		0.0	
İ	AVERAGE PRI	CE EARNINGS RA	rio 2 5	.7	9 CURRENT PR	ICE EARNINGS RATIO)	23.9	
	-	[20.22] Base		-		Current P/E	Based or	n Last 4 qt	r. EPS [1.]
		ING RISK and		· ·					
2	ssuming one recession	n and one business boom e	every 5 years, calculations	are made of how high	and how low the stock mig	nht sell. The upside-downside	ratio is the key to e	valuating risk and rewa	rd.
A	HIGH PRICE N	22 6		ta Ulah Eaminas (C	24	2.70 - For	eren at Ulah Deia	- 0	88.0
	Avg. High P/	(3D7 as adj	A Lound	te High Earnings/S	Share	= FO	recast High Pric	e\$	(4A1)
E	a) Avg. Lov		18.9	X Estimated Low E	arnings/Share	1.03 1.18	= \$	22.3	
		w Price of Last 5 Year	E7 as adj.)	13.3					
	., .			(3B7)					
	(c) Recent S	Severe Market Low P		15.6					
				=	0.000	= 0.	.0		
	(d) Price Div	vidend Will Support	Present Divd.						
		vidend Will Support timate Low Price	Present Divd. High Yield (H)		0.000	-		= \$	22.3
c	Selected Es	timate Low Price	High Yield (H)		0.000				(4B1)
c	Selected Es		High Yield (H)	2.3 Low F	0.000	65.7_F			
c	Selected Es C ZONING 88.0 (4A1) (4C2)	timate Low Price High Forecast Pr Lower 1/3 = (4B1)	High Yield (H)	2.3 Low F	0.000 orecast Price Equals 38.7	65.7 F	Range. 1/3 of R	ange =(4	(4B1) 16.4 4CD)
c	Selected Es C ZONING 88.0 (4A1) (4C2)	timate Low Price	High Yield (H)	2.3 Low Fi IB1) toto	0.000 orecast Price Equals 38.7 71.6	(C)	Range. 1/3 of R	ange =(4	(4B1) 16.4 4CD)
c	Selected Es 2 ZONING 88.0 (4A1) (4C2) (4C3)	timate Low Price High Forecast Pr Lower 1/3 = (4B1)	High Yield (H)	2.3 Low Fi IB1) toto	0.000 orecast Price Equals 38.7 71.6	(C) (Buy) Not	Range. 1/3 of R	ange =(4	(4B1) 16.4 4CD)
c	Selected Es 2 ZONING 88.0 (4A1) (4C2) (4C3)	High Forecast Pr Lower 1/3 = (4B1) Middle 1/3 = Upper 1/3 =	High Yield (H)	2.3 Low Fi (B1) to to to to	0.000 orecast Price Equals 38.7 71.6	(C) (Buy) Not (Maybe) (4A1) (Sell)	Range. 1/3 of R e: Ranges Buy	ange =((4B1) 16.4 4CD)
	Selected Es 2 ZONING 88.0 (4A1) (4C2) (4C2) (4C4) Present Market F	High Forecast Pr Lower 1/3 = (4B1) Middle 1/3 = Upper 1/3 =	High Yield (H) ice Minus 22 22.3 38.7 71.6 28	2.3 Low Final Lo	0.000 orecast Price Equals 38.7 71.6 88.0	(C) (Buy) Not (Maybe) (4A1) (Sell)	Range. 1/3 of R	ange =((4B1) 16.4 ACD) 5%/50%/25%
	Selected Es 2 ZONING 88.0 (4A1) (4C2) (4C2) (4C4) Present Market F	High Forecast Pr Lower 1/3 = (4B1) Middle 1/3 = Upper 1/3 = Price of -SIDE RATIO (Potential)	High Yield (H) ice Minus 22 22.3 38.7 71.6 28	2.3 Low Financial Low Financial Low Financial Loss)	0.000 orecast Price Equals 38.7 71.6 88.0	(C) (Buy) Not (Maybe) (4A1) (Sell)	Range. 1/3 of R e: Ranges Buy	ange =((4B1) 16.4 ACD) 5%/50%/25%
	Selected Es Selected Es 2 ZONING 88.0 (4A1) (4C2) (4C2) (4C3) (4C4) Present Market F D UP-SIDE DOWN High Price (2)	High Forecast Pr Lower 1/3 = (4B1) Middle 1/3 = Upper 1/3 = Price of -SIDE RATIO (Potentian) 88.0 28, 150 28, 150	High Yield (H) ice Minus 22 22.3 (a) 38.7 71.6 28 (a) tial Gain vs. Risk of	2.3 Low Find to to to dodd todd t	0.000 orecast Price Equals 38.7 71.6 88.0 is in 150	(C) (Buy) Not (Maybe) (4A1) (Sell) n the 59.9	Range. 1/3 of R e: Ranges Buy	ange =(changed to 2 ⁽⁵⁾ 10.2	(4B1) 16.4 ACD) 5%/50%/25%
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EDUCATION MGMT. NDQ.	EDMC	RECENT PRICE	31.25	P/E RATIO	24.0) (Trailir Media	ng: 28.9 an: NMF)	RELATIVI P/E RATI		8 DIV'D YLD			ALUI LINE						
IMELINESS 2 Raised 12/24/04	H	ligh: 5.3 ow: 3.9	8.0 4.5	12.0 6.8	15.9 4.3	19.4 5.1	23.0 11.6	23.3 15.6	35.0 16.6	36.6 22.8				Price 2008					
AFETY 3 New 2/12/99 LEGENDS	ash Flow" p sh			0.0									2007	2008	<u> </u>				
ECHNICAL 3 Raised 1/7/05 Relative P 2-for-1 split 12/9	rice Strength																		
ETA .85 (1.00 = Market) 2-for-1 split 12/0 Options: Yes	3								2-	for-1					-64				
Price Gain Return	licates recession								1						-48				
gh 65 (+110%) 20%											•-				-32				
w 45 (+45%) 10% sider Decisions	+			<u>2-</u> f	or-1					<u> </u>					+24				
M A M J J A S O N Buy 0 0 0 0 0 0 0 0 0 0					Ш										+10 +12				
Solutions 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0				الس	"							04 TOT	RETURI	10/04					
stitutional Decisions														L ARITH.	-8				
102004 202004 302004 Percent 15 Buy 103 104 97 shares 10				. 11								1 yr.	6.3 -9.0	17.2 43.9	F				
Sell 89 // 82 traded 5 I's(000) 59939 61344 60845			*************	الللللس			••••						124.1	76.6	-				
Education Management Corp. was in		995 1996			1999	2000	2001	2002	2003	2004	2005		LINE PUE	,	07-0				
rporated in Pennsylvania in 1962. In 71, Robert B. Knutson became President			3.18 .39	3.86 .50	4.43 .60	5.30 .74	6.08 .90	7.11	8.89 1.41	11.63 1.80	13.60 2.20		s per sh ow" per s		21 3				
that time, EDMC consisted primarily c	f		.18	.24	.31	.38	.00	.62	.77	1.03	1.30	Earnings			2				
e Art Institute of Pittsburgh, which was ac ired in 1970. In November, 1996, the			.31	 .31	 .85	 .85	 .78		 1.12	 1.10	Nil 1.30	Div'ds De Cap'l Spe			1				
mpany and certain shareholders issue			1.00	1.28	.85 1.64	.85 1.95	2.62	4.93	5.94	7.21	7.30 8.65	Book Val	• •		14				
060,000 shares of common stock at \$3.7	5		57.51	57.51	58.92	57.94	60.96	70.36	71.98	73.34		Common	Shs Out	sťg D	78				
er share (adjusted for splits). CS First Bos n and Smith Barney served as the lea			29.7 1.71	30.9 1.61	35.0 2.00	18.4 1.20	32.3 1.66	30.8 1.68	26.6 1.52	30.8 1.61		Avg Ann' Relative			2				
derwriters.					2.00	1.20		1.00				Avg Ann'							
PITAL STRUCTURE as of 9/30/04			182.9	221.7	260.8	307.3	370.7	500.6	640.0	853.0				A	1				
tal Debt \$5.6 mill. Due in 5 Yrs \$5.6 mill.			17.0%	17.6% 14.3	18.6% 16.8	19.1% 20.2	20.4%	20.6%	21.5% 44.9	22.1% 55.3	23.0% 67.0	Operating Deprecia		II)	23				
Debt \$5.4 mill. LT Interest \$.4 mill. (less than 1% of Cap'l)			10.0	14.3	18.8	22.5	29.0	42.3	56.3	77.0	98.0	Net Profi	•	",	•				
				42.0%	41.1%	40.1%	38.9%	37.2%	38.5%	41.0%	41.0%	Income T			41.				
ases, Uncapitalized Annual rentals \$78.3 mill. Defined Benefit Pension Plan			5.5%	6.5% 27.5	7.2%	7.3%	7.8%	8.5%	8.8% 20.8	9.0% d76.4	9.7% 10.0	Net Profit Working	-	nill)	10				
d Stock None			30.4	35.8	36.5	64.3	53.6	3.5	3.4	3.4	5.0	Long-Ter	m Debt (\$mill)	1				
0 (1) 1 70 511 400 1			57.8 12.2%	73.3 13.1%	96.8 14.1%	113.0 13.0%	159.9 14.1%	346.6 12.3%	427.8 13.1%	528.7 14.5%	645 15.0%	Shr. Equi Return or			1 15.				
ommon Stock 73,511,469 shs. ARKET CAP: \$2.3 billion (Mid Cap)				19.5%	19.4%	19.9%	14.1%	12.3%	13.1%	14.5%		Return of			15. 16.				
IRRENT POSITION 2003 2004 9/30/04				19.5%	19.4%	19.9%	18.1%	12.2%	13.2%	14.6%	15.0%	Retained	to Com I	Eq	16.				
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ventory (FIFO) 4.4 5.0 7.9 her 32.3 31.5 27.8	cocondary	BUSINESS: Education Management Corporation provides post- secondary education to about 59,000 students at 67 campuses in										ust, 7.8%;							
urrent Assets 151.0 205.1 197.3	3 24 states al	and two Canad										5.6%. (10 cKernan,							
xts Payable 16.3 30.1 39.0 bbt Due 35.1 136.2 .2	Argosy Univ	through four educational institutions: The Art Institutes (31 schools), Argosy University (13 campuses), South University, and American Education Centers. Has about 5,500 employees; 840 shareholders.						Brooks,	Jr. Inc.:	PA. Add	r.: 210 S	Sixth Ave.	, 33rd Fl	oor, Pitt	sbu				
her 78.8 115.2 227.4 urrent Liab. 130.2 281.5 266.6			-		-		-					900. Interr							
NUAL RATES Past Past Est'd '02-'0	we ha	ve raise 30th) ea						The	new ab	share ig su	ed-ca ccess	mpus 5. The	com	tegy pany	ha cu				
change (per sh) 10 Yrs. 5 Yrs. to '07-'09	cation	Manag	gement	by	a n	ickel,	, to	rentl	y oper	rates 1	nore t	than o	ne scl	hool a	at 1				
ash Flow" 23.5% 15.5% Irnings 27.0% 18.5%		\$1.30 share. The upward revision is the product of a strong first quarter that saw										with t by the							
vidends Nil ok Value 35.5% 15.0%	share e	earnings	beat ou	r esti	imate	by \$0	0.03,	2005.	Edu	ucatio	n M	anagei	ment	rece	ent				
cal QUARTERLY REVENUES ^ (\$ mill.)	Voor og	early dog o period										1 Ma Ameri							
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01 72.6 103.1 100.4 94.6 370 02 91.9 129.5 145.7 133.5 500		surge at the top line. The company also benefited from a reduction in operating						County, and San Diego. This strategy ha had a positive effect on EDMC's margin											
	, benefice	costs (discussed below). The most en-							and cash flow generation. The opening of										
03 128.1 175.1 173.7 163.1 640		couraging sign, though, was a 329									on an existing location lowe								
03 128.1 175.1 173.7 163.1 640 04 169.0 233.0 235.2 215.8 853	ouragi		over-year increase in the student body. This, combined with the recent tuition rate						the company's start-up costs. The strategy saves EDMC approximately										
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