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Division of Finance and
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875 Perimeter Drive MS 3168
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Wednesday, March 23, 2023

Private & Confidential

Greg Finkelstein
Managing Director
Tyton Partners
150 E. 52nd Street, 20th Floor
New York, NY 10022

Re: Project NEPTUNE Process Letter

Greg,

Thank you for inviting University of Idaho (“University”, “U of I”, or “we”) to submit our “Indication of Interest” (“Indication of Interest” or “IOI”) letter regarding the next steps pertaining to acquiring University of Phoenix, Inc. (“University of Phoenix”, “NEPTUNE”, or “UoPX”). We are excited for the opportunity to work you, further define the strategic nature of this transaction, and determine how all parties will benefit from our acquisition. The synergies and opportunities that would follow the affiliation between U of I and UoPX represent an important and strategic investment for us and would build upon the existing transformative educational experience with innovative online programs to benefit students, faculty, and staff of both institutions. We appreciate the complex nature of the transaction and understand the sensitivity and timeliness required to participate in this endeavor. We believe that U of I is uniquely positioned to successfully acquire UoPX to advance the overall strategic goals of both universities.

Under President Green’s leadership, U of I has experienced significant, positive operational changes and executed large, complex, and non-traditional transactions. The recent \$225MM infrastructure P3 transaction resulted in strengthened liquidity and financial reserves at U of I. As Idaho’s land grant university, we have improved our operating performance which is driven by a steady increase in enrollment in conjunction with ongoing expense management and federal funding. Between FY20 and FY22, we have increased overall assets by 39% and experienced an 11% gain in our net position. The demonstrated growth during tumultuous times and the ability to manage and execute non-conventional, strategic projects in an expeditious manner is foundational in our efforts to push boundaries and participate in pursuits to benefit U of I and our stakeholders.

The alignment of U of I and UoPX missions and visions will be a critical factor for ensuring successful continuity of operations. Both universities share the common goal of collaborative education and positive community engagement. The proposed transaction has the unique ability to accelerate several strategic priorities shared by both universities, such as innovative thinking, educational offerings to transform the lives of students, technology-enabled delivery, and preparation for students to be problem solvers and lifelong learners. We believe that this acquisition will support our high priority goals in several key areas:

- **Educational Mission:** U of I is the state’s land-grant research university and has the objective to deliver excellence in teaching, research, and outreach in a communal environment for students across Idaho. By acquiring UoPX, the new infrastructure would expand our mission to educate the masses and transform the lives of students engaged both in-person and online. Additionally, the acquisition of UoPX will significantly increase the total overall enrollment, which will allow the



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institutions to offer multiple new degrees and fields of study. The acquisition would also create additional career opportunities for faculty, staff, and management teams of both organizations.

- **Geographic Expansion / Student Body Diversification:** Acquiring UoPX would allow U of I to expand its geographic impact far beyond the state of Idaho and the Pacific Northwest region, enabling us to serve non-traditional student populations across socially and economically diverse communities. U of I's student body is heavily concentrated in the Pacific Northwest and nearly 60% of the students are from the state of Idaho. More than 99% of UoPX students reside outside of Idaho and represent all 50 states and 60 countries across the globe. The acquisition would diversify our student body and diversify revenue sources for both entities.
- **Technology / Academic IP Acquisition:** UoPX possesses a unique data-driven approach coupled with automation and AI / machine learning capabilities that result in improved student outcomes. The acquisition of UoPX will enable U of I to deliver immediate value above and beyond U of I's existing online platform to accelerate both the state of Idaho and the University's online education capability and enrollment growth. The robust technology infrastructure and expertise in online delivery that UoPX has created will drive operating efficiencies and realize cost savings for both universities. We see synergies for UoPX and Idaho Online that complement rather than compete and would open new markets for both.
- **Financial Impact:** We expect that this acquisition will be accretive by diversifying revenue streams of the combined entities and provide greater economic stability for delivery of educational opportunities for students, faculty, and stakeholders of both organizations.

U of I has already begun initial due diligence using the information provided. Given the limited extent of information furnished in the data vault, we cannot at this point provide definitive answers to some of the questions posed in the request for the IOI, but expect to be in a position to do so as we engage in our due diligence process. We are excited about this opportunity and look forward to engaging with Tyton Partners as we complete our analysis and due diligence.

I. Indication of Interest Response

- a) **Identity and Structure:** With the benefit of our experience in non-traditional transactions and our preliminary analysis of this transaction, we are confident that we will identify a structure that suits the needs of both U of I and UoPX. We anticipate that the structure of the acquisition of UoPX would include the transfer of assets that support the core operation of UoPX into a separate legal entity, a non-profit organization supported by U of I. To close this transaction as expeditiously as possible, most, if not all, UoPX operations and employees would remain with the separate entity until such operations can be integrated into U of I in a manner that minimizes disruption to both parties. U of I is exploring the option of utilizing a debt service reserve fund ("DSRF") to balance financial integration, strength of guarantee, and inherent flexibility. Structuring the transaction with a DSRF component would enable the transaction to be closed as quickly as possible (barring other factors). At the appropriate time, we will address the more comprehensive integration and full faith

and credit of U of I as support for UoPX operations, as may be required by the U.S. Department of Education.

- b) **Purchase Price and Valuation:** Based upon the limited amount of information available at this time, we believe, subject to further due diligence, that we could engage in a transaction in the \$600MM to \$650MM range. As we are sure you can appreciate, significantly more data is required to conduct enough due diligence to adequately assess the overall net asset value and transactional and operational risk, along with the benefits of synergy created by combined entities, all as elements of acquisition price. U of I's business-minded perspective and history of executing complex transactions utilizing alternate solutions provides a solid foundation for potential valuation. U of I would participate in a primarily debt-funded transaction and consider integration and other operational costs. Access to capital markets, the cost of capital, and models predicated on UoPX data and U of I projections will inform debt service coverage ratios, potential covenants, overall valuation, and the resultant offer.
- c) **Due Diligence:** We have assembled a team of experienced professionals to evaluate this transaction as expeditiously as possible. We expect that our due diligence will include, but may not be limited to, inquiries into the following areas: finance, accounting, operations, equipment, inventory, owned and leased real estate, employment/labor/human resources (including benefits), customers, vendors, subcontractors, facilities, insurance, participation in federal student financial aid programs (including Title IV programs), private student lending, accreditation matters, enrollment, course offerings, contracts, tax, legal and regulatory matters, intellectual property, IT/technology and other UoPX assets. At the appropriate time, we will request relevant records of UoPX and access to executive officers, key personnel, and advisors of UoPX to assist U of I in this diligence effort. We are eager to review all relevant information so we can proceed in a timely and efficient manner. We expect that our advisor group will include:
- Transaction Advisor: Rieth Jones Advisors (RJA)
 - University Financial Advisor: *TBD*
 - Investment Bank / Financing / Structuring: Wells Fargo
 - M&A / Education & Regulatory / Tax Legal Counsel: Hogan Lovells
 - State of Idaho Legal Counsel: Hawley Troxell
 - Title IV Auditors: *TBD*
 - Intellectual Property Consultants: *TBD*
 - Information Technology Consultants: *TBD*
 - Human Resources Consultants: *TBD*
- d) **Timing:** We are prepared to dedicate substantial resources to the due diligence process to ensure that it is completed quickly, efficiently and with minimal disruption. We acknowledge the Higher Learning Commission meeting in November 2023 and agree that it is in both parties' interest to work towards completing a transaction as soon as practicable. In our experience, the length of time required to complete due diligence is most frequently predicated on the availability of complete



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due diligence information and the seller's support during the process. We are likewise prepared to devote significant resources to the expeditious negotiation of definitive transaction documents.

As evidence of our commitment to this transaction, we have engaged several advisors (noted above) and have reviewed this transaction with the State Board of Education and Board of Regents of the University of Idaho (Board) through an executive session. With the Board's support, we are fully engaged in pursuing this transaction and are prepared to address the approvals required by the University and broader external governing bodies that will impact the timing and execution of definitive agreements. In accordance with the policies of the Board, the University will be required to submit any such agreement for acquisition to the Board for independent approval. Furthermore, decisions pertaining to financial structuring or institutional debt will also require independent Board approval. Changes to U of I legal structure, faculty, and staff may also require Board approval to the extent not already incorporated into an approved acquisition agreement. Any approval by the Board must be made as part of an open, public meeting of the Board with notice and written agenda as required by Idaho law. U of I's obligation to close the transaction will be subject to customary conditions including U of I and UoPX obtaining all necessary regulatory, accreditation, and third-party approvals.

II. Non-Binding Effect

It is important to note that delivery of this letter, or any subsequent correspondence, is for informational purposes only and does not constitute an offer from U of I to purchase or otherwise acquire UoPX or any portion thereof. Any agreement by the University to purchase or otherwise acquire UoPX or any portion thereof will be considered formally accepted only when definitive written agreements between UoPX and U of I shall have been executed and delivered between the parties and the University shall have received approval of such agreements from the Board in the manner hereinafter set forth in this section. Until such time, the University will not have any obligation to UoPX with respect to any transaction, and following such time, the University's only obligations will be those set forth in such agreements.

U of I reserves the right, in its sole discretion, without prior notice or explanation to UoPX, to reject any and all proposals made by UoPX and any of its representatives and to terminate discussion with UoPX regarding a transaction between the University and UoPX, irrespective of whether any such proposal meets or exceeds any U of I expectations previously communicated to UoPX.

Any agreement by U of I to purchase or otherwise acquire UoPX or any portion thereof shall not be effective or binding on the University until such agreement is approved by the Board in accordance with policies and procedures and in the manner otherwise prescribed by the terms of the agreement. The determination of the Board whether to approve any such agreement is an independent decision of the Board, and nothing herein, or in any subsequent agreement document, shall be deemed to bind the Board in favor of approval, or to limit its discretion in granting any such approval.

This Indication of Interest and its contents are confidential and may not be disclosed to any third party without our written consent. We appreciate the opportunity to submit our interest in the University of Phoenix and look forward to discussing our interest with you further and initiating the next phases of due

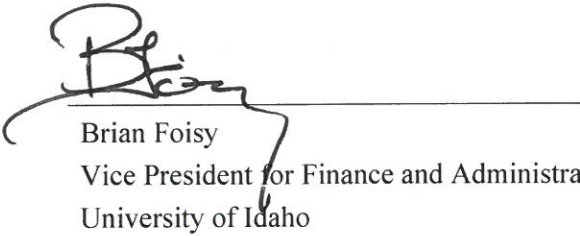


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diligence. Should you have any questions regarding the details provided above, please contact me at brianfoisy@uidaho.edu. We look forward to working with your teams to advance this transaction to a successful conclusion and to answer questions you may have.

Best Regards,



Brian Foisy
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