



Overview of the University of Phoenix Transformation

Dear Honorable Idaho Lawmakers:

On behalf of the students, alumni, faculty, staff and leadership of University of Phoenix, we are honored and excited to be affiliating with the University of Idaho, one of the nation's most respected land-grant universities. This transaction, where our institution will transition into a non-profit entity affiliated with the University of Idaho, will be the natural next step of a successful, multi-year transformation the University of Phoenix started nearly a decade ago.

Since most of our transformation has occurred as a privately held institution, we wanted to share the background, core tenets and outcomes of our strategic plan executed to strengthen University of Phoenix for the long-term. Our entire organization takes great pride in the hard work and results of this evolution, which has created a **University of Phoenix that is very different today than what many people might remember or read about in the media.**

Background

When founded in 1976, University of Phoenix was a leading innovator in the higher education industry. It pioneered accessible education for working adults who did not fit the traditional, campus-based student model. However, over time, the University became a victim of its own success. As a publicly traded company, the institution expanded considerably over the years, serving different students and markets than originally intended in its founding mission. At its peak, the University of Phoenix had a student body of more than 475,000 and was part of a broader portfolio of unrelated universities and education providers that operated in faraway markets such as Germany, the U.K., South Africa, Chile and Brazil, among others.

Responding to significant marketplace changes, beginning in 2010, the University's Board of Trustees started to lay the foundation to pursue a wide-ranging transformation to reposition the institution. It became clear that a repositioning of such scale and breadth would best be accomplished as a private company, away from the daily fluctuations of the public stock markets. It was against this backdrop that the University Trustees made the decision to support our current ownership group in its acquisition of the publicly traded company for \$1.1 billion.

In February 2017, the acquisition was completed with a vision to realign the overall structure of the acquired company and implement separate transformation plans for each of the 13 acquired universities and education providers. As it relates specifically to University of Phoenix, the transaction marked the start of a plan to accelerate existing transformation efforts and launch new initiatives to reposition the University. **The ultimate vision was to create a smaller institution focused on educating and re-skilling working adult students – the core of the University's mission.**

The results of the transformation are evident today:

- **Student retention:** up 12.2% for bachelor's, 7.7% for master's and 13.8% for associate's
- **Net promoter score:** up 15.9%
- **Average enrollment:** 6.3% growth in FY 8/2023E
- **Average free cash flow:** \$120+ million

The three strategic pillars of the transformation were as follows:

1) Elimination of the Public Company Structure

Shortly after completing the 2017 acquisition, all universities and education providers not related to University of Phoenix were either sold or discontinued to wholly focus on University of Phoenix's transformation plan. The executive positions and management functions of the public company entity were also entirely eliminated, and previously shared services were completely integrated under the individual schools. Additionally, through the sales of these mostly international businesses, the original investment from the \$1.1 billion acquisition was recouped and generated a respectable return. These divestitures and overall success in the investment have allowed for flexibility to negotiate a below-market sale price for University of Phoenix in exchange for partnering with the right buyer where University of Phoenix, its new partner institution, its students, staff and faculty would be best positioned for long-term success in serving the educational needs of working adults as a non-profit institution.

2) "Right Sizing" University of Phoenix

As a privately held institution under new leadership, the University was able to pursue longer-term initiatives to "right size" the University that materially reduced enrollments and the University's financial profile to enable it to create a smaller but more stable and better positioned institution. Key initiatives to "right size" the University included:

- **Exiting non-core academic programs**, significantly streamlining our portfolio of degree programs, resulting in a 95%+ reduction in associate's degree enrollments.
- **Reducing our ground campus footprint** from 134 campuses to, now, just one physical location in Phoenix to better focus on our leading online delivery model, which has proven to be the modality of choice for adult learners.
- **Increasing our commitment to responsible marketing**, including reducing advertising spend, significantly, severing ties with third-party affiliate lead aggregators, discontinuing the naming rights to the Arizona Cardinals' football stadium, and eliminating mandatory arbitration.
- **Continuing our 3-week risk-free trial period** where eligible students can attend courses on a fully refundable trial basis before official enrollment.
- **Improving student affordability** by decreasing tuition for our bachelor's degree by 7% since the 2017 acquisition and introducing a Tuition Guarantee where we commit not to increase tuition during a student's program at the University.
- **Improving operational efficiency** by rationalizing our operating structure, decommissioning legacy technology and introducing process automation – we improved the student experience while reducing overhead expenses \$90 million since 2017.

Comprehensive restructurings of this magnitude come with significant implications. For instance, our enrollment base of approximately 80,000 students is now approximately 17% of the University's peak size. However, the dedication and thoughtful execution by the University's new leadership team and broader

organization enabled a successful implementation of these complex but necessary actions while maintaining financial stability and positive cash flow. With our new student enrollment growing responsibly at a sustainable level over the last two years, we have now returned to sustainable growth allowing us to reinvest in supporting our students and alumni.

3) Refocus on the Working Adult and Reinvest in Student Success

In addition to “right sizing” the University, an equally important component of the transformation was to realign the institution to better serve the working adult student and reinvest in services and technology that directly supported student success. We have refocused the University in several ways:

- **Strengthened the academic offerings.** We extensively enhanced our course curriculum by launching 25 new degree programs, including several competency-based assessment programs, and 33 certificates to incorporate the latest industry trends and in-demand skills.
- **Instituted a data-driven approach to improving student outcomes.** We have developed several proprietary, advanced analytics models using the ~21 terabytes of data derived annually to continuously improve our student outcome-driven model, such as coursework development, support for at-risk students, customized student outreach strategies and student service innovations.
- **Invested in student support services.** We invested heavily in student support to increase the academic readiness of incoming students and improve student retention. We also leveraged our enhanced technology capabilities and information technology systems to upgrade the student experience.
- **Integrated industry-leading predictive analytics.** As part of our data-driven strategy, we use predictive analytic models to identify students who are at risk academically and provide comprehensive support to keep them on track.¹
- **Integrated skills into our academic programs.** We have mapped our degree programs to the career-relevant skills employers want and need, allowing our students the ability to earn industry-recognized digital badges and demonstrate new skills to employers as they pursue their degree.²
- **Launched career service offerings for life.** We now offer career service for life for every student and for every graduate of our degree and certificate programs, including our more than 1 million alumni.³
- **Partnered with community colleges.** We work with a growing number of community colleges nationwide, including the College of Western Idaho, to allow students to save money and complete their bachelor’s degree in a shorter time. A 95%+ reduction in associate’s enrollments further underscores the fact that we do not seek to compete with community colleges, but rather collaborate with them wherever possible.⁴

Throughout the University’s transformation, we have continued to invest in our compliance systems.

To uphold our commitment to integrity and transparency, the University employs a team of 99 trained full-time professionals solely dedicated to regulatory compliance, student complaint resolutions and quality control. In addition to extensive compliance training, we have also developed industry-leading compliance measures that are often recognized by regulators. For example, we record the vast majority of calls with prospective students, where permissible, and review each interaction with a sophisticated, tech-enabled monitoring system to ensure

¹ <https://www.phoenix.edu/student-resources/overview.html>

² <https://www.phoenix.edu/online-degrees/skills-aligned-learning.html>

³ <https://www.phoenix.edu/career-services.html>

⁴ <https://www.phoenix.edu/admissions/community-college-transfer-pathway-program.html>

our enrollment representatives adhere to regulatory requirements and abide by the highest ethical standards. This framework enables continuous improvement and has resulted in a consistent track record of regulatory compliance where we have successfully completed hundreds of rigorous accreditation evaluations, program reviews and compliance audits. We continue to maintain strong, established dialogue with our academic accreditors, state regulators and various federal agencies.

Demonstrable Results

These actions have significantly strengthened the University's relationship with students and position relative to competitors as demonstrated by the following improvements to student outcomes and financial results:

- **Student Progression and Retention.** Since 2017, our student retention rates have increased by 12.2% for bachelor's degrees, 7.7% for master's degrees and 13.8% for associate's degrees.
- **Student Loan Defaults.** The University works with students to facilitate responsible borrowing. As a result, student loan default rates continue to improve and have decreased by 16.5% from the 2017 acquisition until the COVID student loan repayment pause in 2020. Importantly, our three-year cohort default rates are below the average for proprietary universities and close to the average for state universities. Students who complete their degree and graduate from the University had a loan default rate of only 4.4% in the period before the broader loan repayment pause.
- **Student and Faculty Satisfaction.** Our student Net Promoter Scores have increased 15.9%, growing from 62.8 in July 2018 to 72.8 in June 2023. Similarly, the results of our internal 2022 faculty engagement survey indicate that 91% of our faculty feel that the work they do at the University is meaningful and 87% feel that they contribute to the University's mission.
- **Enrollment and Revenue Stability.** As noted, our multi-year transformation to actively reduce the scale of the University drove much of the significant enrollment and revenue declines experienced since 2010. This was an intentional process and in the best interest of the University and our students. However, enrollments and revenue have now stabilized and grown consistent with our plans, which includes projected mid-single digit growth for new enrollment, average total enrollment and net revenue in FY 8/2023E compared to the prior year.
- **Financial Performance.** We maintained stable cash flows with average annual free cash flow from 2019 to 2022 of more than \$120 million, which in the future will be used to reinvest in the institution, educational services, and support an affiliation payment to the University of Idaho.

As part of the next phase of our evolution, University of Phoenix sought a long-term partner that 1) was committed to serving working adult learners; 2) appreciated the level of investment, experience and capabilities required to deliver the learning experience and student support systems that working adult learners need; 3) was committed to a non-profit structure that would help sustain and reinforce a student-centric operating focus; and 4) has an established national profile that would be further enhanced by the addition of ~80,000 active students and 1 million+ alumni. The University of Idaho is a uniquely compelling partner on each of these dimensions.

In closing, we are proud of the transformation at University of Phoenix, our longstanding commitment to adult students, our more than 1 million alumni and our record of results. While some may pose questions about the old University of Phoenix, they have not taken the time to recognize the evolution made since 2017 and to fully appreciate the opportunity this innovative affiliation with the University of Idaho represents.

We welcome a close examination of the University's contributions to higher education and, in an effort to provide additional transparency, we have enclosed supplemental information pertaining to our transformation,

academic focus and financial stability. We appreciate the importance of transparency for the state of Idaho and offer these documents in good faith as we hope to embark on our exciting affiliation together. We look forward to opportunities to discuss our transformation and go-forward vision of University of Phoenix with interested stakeholders in Idaho.

We are excited to join with the University of Idaho to illuminate and elevate students, and provide additional opportunities to the state and region by expanding access to affordable, career-relevant online education with the combined strengths of both of our institutions.

Sincerely,



Chris Lynne, President
University of Phoenix



John Woods, Provost
University of Phoenix