

KNOWLEDGE UNIVERSE - Restructuring October 2014

business is being separated into three principal operating units, each to be held in a distinct partnership:
Opco- includes US early childcare learning centers at 1400 community centers, 100 employer sponsored office locations, and 400 afterschool program locations

Propco-US real estate portfolio which owns and leases to Opco 780 of Opco's learning centers

Intl -60 childcare learning centers in Singapore and Malaysia and the Canadian Intl School in Malaysia

Structure-

KUE is creating 6 new partnerships-will spin off Opco and Propco business units into these LPs (for onshore, offshore, and KULG LPs) in order, they said, to prepare for 'tax efficient monetization' of the assets in these units. Example given was that if Propco assets are sold to a REIT and REIT was to offer cash and/or equity option to LPs, this structure would allow LPs to make choice about currency received and help avoid a disadvantaged position related to withholding taxes since the withholding tax implications are different for US vs offshore investors.

LPs will continue to own the Intl business through KUE LP.

Steps-

Knowledge Universe Learning Group KULG, the majority owner of KUE LP, made a loan to KUE LP enabling KUE LP to make a cash distributions to LPs of \$307mil in Oct 2014.

KUE hopes to monetize the **International** business by year end 2014 with estimated net proceeds after debt repay of \$400mil (would mean \$5.7mil for BFP) Co currently has nonbinding LOI for both intl pieces

Next Monetization on the docket is **PROPCO**. Fund is in 'early discussions' with a REIT but no LOI yet. EV of the portfolio is \$1.1bil. Net of cf this year and financing to be paid off, proceeds could approximate \$500mil (\$7mil to BFP)

Opco - proj 2014 EBITDA is \$100mil, up from 2011 recession low of \$50mil. Mgmt targets \$125mil level and believes appropriate valuation is 10x, yielding \$1bil net value after debt repay. (\$14mil to BFP) Mgmt would like to see growth from the current \$100mil ebitda to that \$125mil before monetizing.

Per restructuring, management fees across Opco, Propco and KUE LP units have been decreased.

Last year, KUE LP life was extended by 2 years from October 2013 to October 2015. Now as part of this restructuring the life may be extended further to October 2016, but only if 2 of 3 of the KUE LPs operating units are sold in transactions which provide investors with cash or publicly traded equities before October 2015.

Summary of realized and projected values:

\$100mil distribution of cash and \$250mil KUE shares in 2013

\$300mil cash distribution October 2014

\$400mil anticipated net proceeds from sale of International operation

\$500mil anticipated net cash/equity proceeds from sale of Propco

\$1bil anticipated net proceeds from sale of Opco

Total "company guided" estimated value \$2.55bil (Implied value for BFP of \$36mil vs original investment of \$32mil). The 'yet to be realized' \$1.9bil equates to \$27mil for BFP vs our current basis of \$27mil (from RJ). Of course, half of this estimated value relates to Opco and proj ebitda growth which is on the come. Certainly worth less today. We do not yet know how basis will be allocated to each of the three partnerships.