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CREDIT OPINION
21 February 2017

Update

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RATINGS

Concordia University, Quebec

Domicile	Canada
Long Term Rating	Aa3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Concordia University, Québec

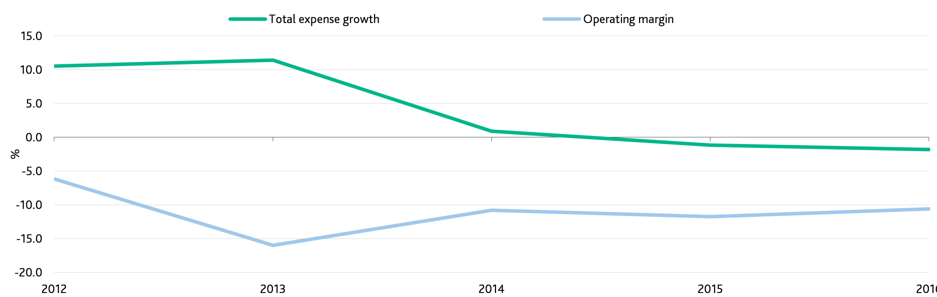
Update to Discussion of Key Credit Factors

Summary Rating Rationale

Concordia University's Aa3 debt rating reflects the university's established market position and its role as part of the Province of Québec's key public policy directive of ensuring access to higher education. The rating also reflects the relatively healthy level of total wealth and the sizeable share of funding derived from the province which provides for revenue security. However, these positives are offset by credit challenges which include the ongoing impact of provincial funding cuts that began in 2012, a period which has coincided with poor operating margins and a downward trend in debt service coverage.

Exhibit 1

Despite reducing expenditure growth, Concordia continues to record negative operating margins



Source: Moody's Investors Service, Concordia University Financial Statements

National Peer Comparison

Concordia is rated in the middle of the rating range for Canadian universities, which span a range of Aa1-A3. Its operating cash flow margin is weaker than many other Moody's rated Canadian universities, due in part to the funding restrictions in place by the province of Québec and lack of control over tuition which restricts the university's ability to raise revenue. Its market position is viewed as strong in large part to its diverse program offering and target demographic which shields it partly from the declining population of the typical student-aged cohort. The relative rating also reflects that Concordia carries a higher-than-average debt burden for Canadian universities, although as with other Québec universities, the majority of this debt receives important debt service subsidies from the province.

Credit Strengths

» Strategic position supported by strong management and solid market profile

» Low, affordable interest expense as debt is supported by provincial subsidies

» Solid level of total wealth

Credit Challenges

» Sustained period of weak operating margins expected to continue

» Relatively weak liquidity despite good levels of total wealth

» Moderate debt burden expected to increase, weakening already poor total debt to cash flow

Rating Outlook

The rating outlook is stable which reflects our view that as the province of Quebec has returned to balance budgets, the funding environment should be stable and predictable, allowing Concordia the opportunity to follow long-term plans and restore its own fiscal balance.

Factors that Could Lead to an Upgrade

» Significant growth in financial resources as compared to debt outstanding and operations

» A return to balanced budgets and clear indication that budgets can remain balanced across the rating horizon

Factors that Could Lead to a Downgrade

» Continued deterioration in the university's operating performance

» Material increase in the debt burden, absent improved liquidity, which results in a deterioration of leverage

» Escalation in pension liabilities

Key Indicators

Exhibit 2

Concordia University

Year ending April 30

	2012	2013	2014	2015	2016
Operating Revenue (CAD Thousands) [1]	470,249	479,537	506,508	496,457	492,413
Annual Change in Operating Revenue (%)	9.6	2.0	5.6	(2.0)	(0.8)
Operating Cash Flow Margin (%)	4.6	(5.7)	(0.7)	(0.7)	0.6
Total Cash and Investments (CAD Thousands)	130,621	143,195	158,978	171,214	173,362
Spendable Cash and Investments to Operating Expenses (x)	0.13	0.13	0.16	0.17	0.18
Total Debt to Cash Flow (x)	27.1	-21.6	-174.9	-192.8	213.1

[1] Net of scholarship expenses

Source: Moody's Investors Service, Concordia University's Financial Statements

Profile

Concordia University, in its present form, was established in 1974 through the merger of Sir George Williams University (founded in 1873) and Jesuit-run Loyola College (founded in 1848). The legacy of this merger continues today via the separation of Concordia's two campuses - one located in downtown Montréal and the other located in a residential area west of the city centre. The university's programs are primarily focused on a diverse curriculum of studies, with a greater emphasis than most Canadian universities to supporting part-time students. More than 300 undergraduate and graduate programs are offered through four faculties (Arts and

Science, Engineering and Computer Science, Fine Arts, and the John Molson School of Business Studies) and the School of Graduate Studies.

Detailed Rating Considerations

Concordia's rating combines (1) a baseline credit assessment (BCA) of a2 and (2) a high likelihood of extraordinary support coming from the Province of Québec (Aa2, stable) in the event Concordia faced acute liquidity stress.

Baseline Credit Assessment

STRATEGIC POSITION SUPPORTED BY STRONG MANAGEMENT AND SOLID MARKET PROFILE

As one of only two major English language universities in the francophone province of Québec (along with McGill University), Concordia has a unique market niche which bolsters its market position. Its mission is to serve first generation and non-traditional students, which creates a student body that has a large socio-economic and cultural diversity. Concordia promotes access to higher education within Québec through the design of its admissions requirements and programs, which offer greater flexibility to match its students' diverse backgrounds and schedules. Not surprisingly, Concordia has the highest percentage of part-time students of any Québec university.

The university's current enrolment measures about 28,000 full-time equivalent students. With an expected easing in the population growth of 18 to 24 year olds, demographic trends in Québec are not expected to be supportive of significant growth in higher education enrolment. However, Concordia's focus on non-traditional students, including mature students attracted to professional training rather than a traditional arts and sciences curriculum, could help the university continue to slowly increase its enrolment over the longer term. The university's strategy to increase its recruitment of international students, targeting markets where student interests align with Concordia's program strengths, has also helped to bolster enrolment and help offset relatively flat domestic tuition fees. Additionally, recruiting a greater number of graduate students, which account for about 13% of student enrolment, has been aided by recent campus investments, such as the Centre for Structural and Functional Genomics.

The university's management has adapted policies and guidelines to align the university with the lower funding provided by the province since 2012. Although the university has recorded negative Moody's-adjusted operating margins over the past 5 years, these results somewhat reflect the unstable funding environment of the Québec higher education. We note that Concordia has been able to frequently attain its original budget target despite facing unexpected funding restrictions mid-year, demonstrating the fiscal flexibility of the university.

Despite the challenges it has faced, the university has been able to maintain its long-term plans, including important infrastructure renewal which has helped Concordia prevent an increase in deferred maintenance which has been recorded in other Canadian universities. The university also continues to improve upon on internal management and policies. Concordia's capital asset management and financing policy, whose objectives, among others, is to manage and finance its capital assets while minimizing the exposure to the university's operational budget exposure, includes a fiscal capacity and affordability determination framework to guide the university on financial planning of capital investments. This is a credit positive in our opinion as it provides important benchmarks for the university to measure itself against.

LOW, AFFORDABLE INTEREST EXPENSE AS DEBT IS SUPPORTED BY PROVINCIAL SUBSIDIES

As is common with Québec universities, roughly one-half of Concordia's total direct and indirect debt is supported by provincial debt service subsidies under Québec's grant bond program or through borrowings from Financement-Québec, a provincial Crown Corporation.

Non-subsidized interest payments consumed 2.4% of adjusted operating revenue in 2015-16, an improvement of the 3.3% level recorded in 2011-12. Concordia's interest expense is considered manageable and does not constrain fiscal flexibility unduly. Furthermore, this measure is expected to remain at manageable levels for the medium-term. The low interest payments ensure Concordia's ability to fulfill its obligations to debt holders.

SOLID LEVEL OF TOTAL WEALTH

Concordia maintains a solid level of total wealth, the majority of which is held and managed by the Concordia University Foundation. Total cash and investments, including both those held by the university itself and those under the management of the Foundation, reached CAD173.4 million as of April 30, 2016. Of this amount, CAD78 million was held in permanently restricted funds.

SUSTAINED PERIOD OF WEAK OPERATING MARGINS EXPECTED TO CONTINUE

Among Moody's-rated Canadian universities, given the role the province plays in funding higher education, Québec universities rely heavily on government funding as a significant source of annual operating revenue. Starting in 2012, the province installed successive cuts to operating grants, which often resulted with universities receiving final funding confirmations late in the fiscal year, and at levels below the universities' initial budgets. These changes have varied from the removal of planned reinvestments, changes to the tuition setting framework and mid-year reductions in funding allocations. The province also sets tuition levels for most programs, further restraining the universities' ability to offset cuts to government grants through other revenue means.

Concordia has posted Moody's-adjusted negative operating margins over the past 5 years, with 2015/16's metric of -10.6% in line with the average over the period 2011/12-2015/16. Furthermore, the university posted negative operating cash flow margins in three of the past four years, having returned to a slim positive in 2015/16 (0.6%). Nonetheless, Concordia's operating cash flow margin is quite poor compared to Canadian peers.

The current fiscal year (2016/17) continues to be a challenging year for the university, which has budgeted for a deficit of CAD6.3 million. While the province's funding grants increased 0.8%, the university continues to face operating cost increases of 2.3% putting pressure on the ability of the university to balance its budget, given the constrained tuition control of Québec universities. Fiscal 2017/18 will also likely be a challenging year for the university as costs associated with early retirement packages and other short-term benefits that were given to employees to gain long-term savings for the university will continue to put upward pressure on the university's expenditures.

However, with provincial funding cuts no longer likely, the opportunity for universities to set budgets at the beginning of the year and follow them throughout without revisions mid-year, should allow Concordia the opportunity to return to manage its budgets to set it on a course to achieve balanced budget outcomes in the medium-term.

RELATIVELY WEAK LIQUIDITY

Despite the solid level of total cash and investments mentioned previously, Concordia records very low levels of liquidity as recognized by its level of spendable cash and investments. These measured measured CAD95.3 million as of April 30, 2016, representing only 0.14x total debt and 0.18x operating expenses. Monthly days cash on hand was only 69 in 2015/16, and despite an improvement from 49 days in 2011/12, the university's liquidity remains among the weakest of Moody's-rated Canadian universities.

Furthermore, with the reduced funding from the province, Concordia has increased its reliance on its line of credit to facilitate its monthly cash flow requirements. As of April 30, 2016, Concordia had drawn CAD106.5 million on its line of credit, up from CAD65.8 million a year earlier. Given our assumptions of the government funding environment in Québec and Concordia's recent performance, we do not see liquidity growing substantially over the rating horizon.

Despite the low liquidity, Concordia has a sinking fund established to provide security to bondholders. As of April 30, 2016, the sinking fund had a value of CAD49.4 million. While Concordia's low liquidity remains a credit negative on a standalone basis, the university's final rating reflects our assumption that the Province of Québec would provide necessary assistance if the university were to face an acute liquidity crisis.

MODERATE DEBT BURDEN EXPECTED TO INCREASE, WEAKENING ALREADY POOR TOTAL DEBT TO CASH FLOW

The university's debt burden, including temporary borrowings made through the line of credit, measured as debt as a percent of revenues remains slightly higher than that of most Canadian universities rated by Moody's, although it is moderate compared to global peers. Over half of the university's debt is guaranteed by the province of Québec and is supported by interest subsidies from the province. As such, Concordia's non-supported debt is made up principally of a CAD200 million 40 year bullet debenture, as well as use of its short-term line of credit (which is typically accessed in advance of receiving provincial financing) and two swap loan agreements.

In light of the ongoing operating budget pressures, we assume the university will increase its leverage to finance capital projects as outlined in the three year capital plan. Given that academic capital projects need the approval of the provincial government and that debt for such projects will likely receive provincial subsidies, Concordia's debt service will likely remain low even if the debt burden rises. We will carefully monitor the university's debt management in the near-term to determine potential credit implications.

Within the context of past deficits and negative cash flow, the university's total debt to cash flow is very poor. Nevertheless, we take comfort in the strong relationship that exists between the Province of Québec and the university, allowing Concordia to sustain its debt burden.

Extraordinary Support Considerations

Moody's assigns a high likelihood of extraordinary support from the Province of Québec (Aa2, stable) reflecting Moody's assessment of the risk posed to the province's financial reputation if the university were to default, and because of the university's strategic importance to the province's key policy goal of improving education in Québec. The university's ability to access short-term loans from Financement-Québec in the event of a liquidity emergency further bolsters this likelihood of support.

Moody's also assigns a very high default dependence between Concordia and the Province of Québec to reflect joint exposure of the university and the province to the impact of prolonged economic shocks.

Ratings

Exhibit 3

Category	Moody's Rating
CONCORDIA UNIVERSITY, QUEBEC	
Outlook	Stable
Senior Unsecured -Dom Curr	Aa3

Source: Moody's Investors Service

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