MOODY'S
INVESTORS SERVICE

CREDIT OPINION
17 January 2020

Update

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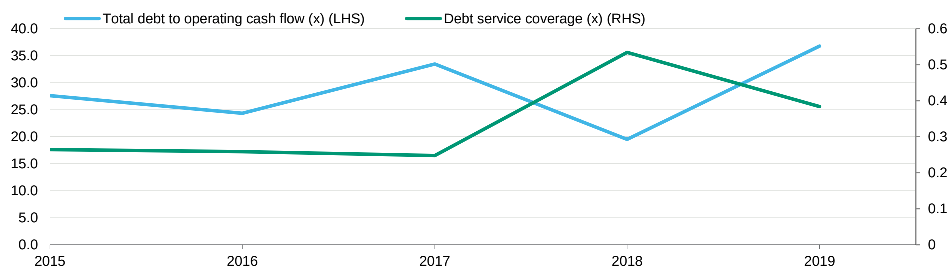
Concordia University, Quebec (Canada)

Update to credit analysis

Summary

The credit profile for Concordia University (Aa3 stable) reflects the university's strategic position highlighted by strong institutional management and niche market profile, adequate level of total wealth and a revised provincial funding formula that will allow Concordia to benefit more fully from its market position than previously. Among credit challenges, Concordia records weak operating cash flow margins, limiting the university's ability to fully implement a robust strategic and capital plan. The university also posts low liquidity and the university's rating is strongly underpinned by the high probability that the Province of Québec (Aa2 stable) would step in to support the university should it require emergency sources of liquidity.

Exhibit 1
Concordia posts weak leverage metrics relative to operating performance



Year ending April 30
Source: Moody's Investors Service, Concordia University

Credit strengths

» Excellent strategic profile supported by strong market position and student demand

» New funding framework to consolidate return to balanced budgets

» Adequate level of total wealth supports long-term planning

Credit challenges

» Weak leverage notwithstanding the presence of provincial debt service subsidies

» Fiscal health to remain weak as operating cash flow expected to only marginally improve as certain challenges persist

» Weak levels of own source liquidity

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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Rating outlook

The outlook is stable. This reflects our forecast that although cash flow will improve slightly over the medium term as the university solidifies its return to balanced budgets, this level will remain relatively weak. Leverage metrics are also expected to remain within recent levels over the next 2 years.

Factors that could lead to an upgrade

A sustained material improvement to operating cash flow generation as a result of positive budgetary balances, and reduced reliance on its lines of credit, could put upward pressure on the rating. An improvement in leverage metrics or a material increase to liquidity could also place upward pressure on the rating.

Factors that could lead to a downgrade

A material deterioration in cash flow generation, resulting from a return to budgetary deficits could put downward pressure on the rating. Additionally, a material increase in debt beyond forecasted levels could put downward pressure on the rating.

Key indicators

Exhibit 2

Concordia University

Year ending April 30

	2015	2016	2017	2018	2019
Operating revenue (CAD 000's) [1]	509,563	503,474	534,518	551,607	599,971
Annual change in operating revenue (%)	0.6	-1.2	6.2	3.2	8.8
Operating cash flow margin (%)	4.5	5.4	3.8	6.2	3.5
Total cash and investments (CAD 000's)	171,214	173,362	200,108	192,203	294,531
Spendable cash and investments to opeating expenses (x)	0.17	0.18	0.21	0.19	0.31
Total debt to cash flow (x)	27.6	24.3	33.4	19.5	36.8

[1] Revenue is net of scholarship expense

Source: Moody's Investors Service, Concordia University

Detailed credit considerations

Baseline credit assessment

The credit profile of Concordia University, as expressed by it's Aa3 stable rating, combines a baseline credit assessment (BCA) for the university of a2, and a high likelihood of support from the Province of Québec in the event that the university faced acute liquidity stress.

Excellent strategic profile supported by strong market position and student demand

The strategic position of Concordia is considered excellent and among the strongest of Moody's rated universities in Canada. The governance and management of the university makes ample use of foward-looking plans and detailed policies which add to the transparency of the university's operations. Management was able to guide the university through several years, notably 2012-2017, of unfavourable provincial funding dynamics and is now poised to continue to post balanced budgets over the next 3-4 years. Despite weak leverage metrics, the university has robust debt policies which it adheres to, regularly benchmarking against peers.

The university is also a leader on environmental, social and governance (ESG) considerations. This includes issuing a sustainable bond in 2019, the first every by a Canadian university. The university intends to issue a campus global plan on sustainability in 2020.

Concordia's strong market profile and unique blend of program offerings continues to support enrolment growth, in contrast to most other Quebec universities which face pressure from declining demographics of domestic students. Concordia is one of only two major English language universities in the francophone province of Québec, a unique market niche which bolsters its market position. The university's programming attracts non-traditional students such as mature students attracted to professional training rather than traditional curriculum, which also helps differentiate Concordia from other peers.

Concordia University's revenue will be supported as the university capitalizes on its strong market position and changes to the province's international tuition policy. Beginning in the 2019/20 academic year the province deregulated international undergraduate tuition, allowing each university to set these tuition rates independently although this will be accompanied by a decrease in provincial grants for international students. This change enables Concordia to capitalize on its strong international reputation and foster own-source revenue growth. Concordia has a 5-year framework to gradually increase its international tuition to that of Canadian peers. International students currently represent about 20% of Concordia's student population.

New funding framework to consolidate return to balanced budgets

Changes to government funding, which were effective September 2019, will assist Concordia's planned return to sustained balanced budgets beginning in 2019/20. Funding changes include an increase to the total funding available for the higher education network, changes to the funding formula used to determine grants per student and deregulation of all international undergraduate and non-research graduate tuition. These three measures will provide Concordia with the opportunity to generate stronger revenue growth, helping to facilitate a return to sustained balanced budgets over the transition period (5 years). The complete deregulation for international undergraduate programs will provide Concordia with the ability to charge tuition in line with Canadian peers and therefore benefit more fully than it has previously from its reputation.

Nonetheless, changes to international tuition will be phased in over time would likely be phased in over a number of years. While operating margins are expected to improve, these improvements will remain marginal and operating margins are expected to remain weak relative to peers. We note that Concordia posted weak operating cash flow margins averaging 4.7% of Moody's adjusted operating revenue over the period 2014/15-2018/19.

Adequate level of total wealth supports long-term planning

Concordia maintains an adequate level of total wealth, the majority of which is held by the Concordia University Foundation. The university recorded a material improvement in 2018/19 which should be sustained over the next few years as Concordia will require less draw on reserves as it consolidates a return to balanced operating budgets and higher non-cash reliance for capital projects stemming from a higher level of provincial capital grants.

The university's total cash and investments, which includes cash and investments held by the university itself and under the management of it's Foundation, measured CAD294.5 million in 2018/19, a 53% increase from the year prior (CAD192 million). Spendable cash and investments relative to operating expenses registered 0.31x in 2018/19, a noticeable increase from the 0.19x in 2018.

The growth of the university's overall wealth over the past several years supports it's commitment to long term planning and strategic investment. Even outside of large fundraising campaigns, the university has been able to generate sizeable donations for both the school and its foundation.

Weak leverage notwithstanding the presence of provincial debt service subsidies

Concordia posts very weak leverage metrics relative to similarly rated peers. We anticipate that these metrics will remain relatively weak with only marginal improvements over the next 2-3 years as operating margins are expected to remain tight.

At April 30, 2019 the university's ratio of total debt to cash flow measured 36.8x. an increase from 19.5x in the previous year. This deterioration was due to an increase in total debt (rising to CAD767 million from CAD667 million) along with a weakening of the operating cash flow margin (to 3.5% from 6.2%).

We note, however, that Concordia receives material debt service subsidies from the province which provides protection to bondholders. However, even if we were to consider only debt serviced by Concordia, the debt to cash flow in 2018/19 would improve to about 20x, which remains a weak level.

Following debenture issuances totaling CAD75 million in 2018/19, the university is not expecting to acquire additional debt over the next 2-3 years. With the proceeds of these debentures, along with higher levels of capital grants from the province, the university believes it can accomplish its current capital plan. If this plan holds, and the university continues to progress on improving its operating cash flow margin over the same period, we expect to see an improvement in the total debt to cash flow metric.

The important provincial debt service subsidies benefits the university by ensuring that the interest payments on Concordia's non-subsidized debt remain affordable. Non-subsidized interest payments on long-term debt consumed 2.2% of adjusted operating revenue in 2018/19, or 0.6x Moody's adjusted operating cash flow, a level that is manageable and does not unduly constrain fiscal flexibility. With limited debt accumulation forecasted over the next 2-3 years, we anticipate that this measure will remain at or below this level over this period.

Fiscal health to remain weak as operating cash flow expected to only marginally improve as certain challenges persist

Although the university is expected to post a return to sustained balanced budgets (according to provincial specifications for defining a balanced budget) beginning in 2019/20, we forecast that operating cash flow will only marginally improve as large operating surpluses are not forecasted. The university also faces medium-term pressures as it restores its fiscal health following a lengthy period of budget deficits.

As with other universities in Quebec, Concordia faced significant budgetary restrictions during the period 2012-2017 and only returned to budgeting for a balanced operating outcome (according to provincial calculations) in 2019/20. Concordia estimates that it suffered a cumulative loss of CAD90 million in its operating budget from government funding reductions over much of the past decade. During this time the university undertook several measures to restrict spending increases, including delaying non-essential service improvements and capital projects. The extended period of weak operating margins leads to a credit challenge that the university limited itself in its undertaking of strategic and capital investments, which can, over the long-term, lead to a deterioration in quality of student experience and loss of reputation.

An improved fiscal position has permitted Quebec to increase operating and capital grants to universities across the province, especially in 2018/19 (as seen by the annual growth in operating revenue of 8.8% in 2018/19). This allowed Concordia to accelerate some capital projects and undertake other initiatives with less external financing required than otherwise would have been the case. However, in our view, the trend of unpredictable government grants does not foster a sustainable plan for long-term planning.

Concordia also faces a challenge in diversifying its revenue from per-student sources. Enrolment growth in recent years has contributed to the majority of Concordia's revenue growth given both tuition and government funding are based on per-student basis. A challenge will be for Concordia to increase its share of revenue derived independently from enrolment levels. Without such diversification, Concordia will be pressured to match expenditure changes to student level dynamics which will be a challenge as expense flexibility is reduced given past measures already introduced to become more efficient over the past period of budgetary deficits. Salaries and benefits account for 70% over Concordia's expenses.

Weak levels of own source liquidity

Despite the adequate levels of total wealth, Concordia records low levels of unrestricted liquidity compared to national peers. Of the CAD294.5 million cash and investments held between the university and its foundation, most of this is held in externally restricted funds or non-liquid investments. Liquidity held by the university can cover only 38 days of operating expenses, a low level compared to Moody's rated Canadian peers. This low level, however, is driven by the fiscal framework for higher education in Québec which limits the ability for universities to build unrestricted cash reserves.

In the place of strong own source liquidity, Concordia relies on its line of credit to facilitate its monthly cash flow requirements. As of April 30, 2019, Concordia had drawn CAD133 million on its line of credit which, in addition to operational needs, includes usage as per Concordia’s financing policy to purposely allocate capital funding across long-term and short-term classes. The lines of credit are negotiated with the support of the province of Québec and the fiscal burden carried by the university related to its line of credit is minimal.

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 (Aa2 stable) in the event of a liquidity emergency further bolsters this likelihood of support.

ESG considerations

How environmental, social and governance risks inform our credit analysis of Concordia University

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Concordia, the materiality of ESG to the credit profile is as follows:

The university's exposure to environmental risks is low. The university owns land and owns / operates buildings, but these are not subject to material risks. The university proactively manages climate risks through its facilities maintenance. The university also operates with a strong focus on sustainability, and will release a sustainable campus plan in 2020.

Social risks are material to rated universities' credit profiles. We assess social risks as moderate given ongoing pressures from demographic declines in university entrance-age population. Other factors associated to social factors, including changing demands of students for programs and course delivery, could lead to risk for the university should it not adapt and therefore lead to a decline in reputation and standing among potential students.

Governance considerations are material to rated universities' credit profiles. We assess governance risk as low given a robust institutional framework and prudent financial planning. Oversight is strong from the Senate and Board of Governors.

Further details are provided in the “Detailed credit considerations” section above. Our approach to ESG is explained in our cross-sector methodology 'General Principles for Assessing Environmental, Social and Governance Risks'.

Rating methodology

The assigned baseline credit assessment (BCA) of a2 is in line with the scorecard indicated outcome of a2. For details of our rating approach, please refer to the Higher Education (May 2019) and Government-Related Issuers (June 2018) methodologies.

Exhibit 3
Concordia University

Concordia University

Rating Factors		Value	Score
Factor 1:	**Market Profile (30%)**		
	Scope of Operations (Operating Revenue) ($000)	455,793	Aa3
	Reputation and Pricing Power (Annual Change in Operating Revenue) (%)	8.8	Aaa
	Strategic Positioning	Aa	Aa
Factor 2:	**Operating Performance (25%)**		
	Operating Results (Operating Cash Flow Margin) (%)	3.5	Baa1
	Revenue Diversity (Maximum Single Contribution) (%)	54.3	A1
Factor 3:	**Wealth & Liquidity (25%)**		
	Total Wealth (Total Cash & Investments) ($000)	219,426	Aa3
	Operating Reserve (Spendable Cash & Investments to Operating Expenses) (x)	0.3	A1
	Liquidity (Monthly Days Cash on Hand)	38	Baa2
Factor 4:	**Leverage (20%)**		
	Financial Leverage (Spendable Cash & Investments to Total Debt) (x)	0.3	A2
	Debt Affordability (Total Debt to Cash Flow) (x)	36.8	B1
	Scorecard-Indicated Outcome		a2
	Assigned BCA		a2

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.
For non-US issuers, nominal figures are in US dollars consistent with the Higher Education Methodology.

Source: Moody's Investors Service

Ratings

Exhibit 4

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

Source: Moody's Investors Service

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