

SECTOR COMMENT

23 November 2023


Contacts

Michael Yake +1.416.214.3865
 Associate Managing Director
 michael.yake@moodys.com

Adam Hardi, CFA +1.416.214.3636
 Vice President-Senior Analyst
 adam.hardi@moodys.com

Seun Ayo-Elijah, CFA +1.416.214.3062
 Sr Ratings Associate
 seun.ayo-elijah@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

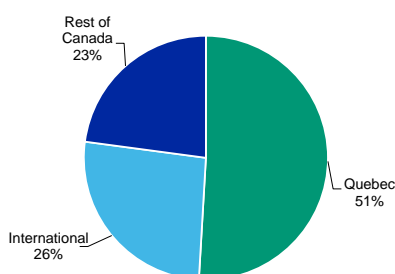
EMEA 44-20-7772-5454

Higher Education – Canada

Quebec's planned tuition policy for fall 2024 is credit negative for McGill University and Concordia University

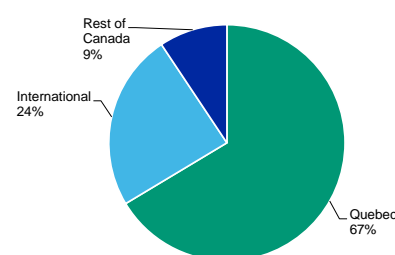
On 13 October, the [Province of Quebec](#) (Aa2 stable) announced changes to tuition fees for undergraduate and non-research graduate programs for non-Quebec residents. Effective fall 2024, the province will substantially increase the tuition fee for new, incoming Canadian students who are not residents of Quebec and impose a minimum tuition fee for new international students (except residents of France and Belgium who will remain unaffected). The changes are credit negative for [McGill University](#) (Aa2 stable) and [Concordia University](#) (Aa3 stable), the two English universities we rate in the province and which attract a high share of out of province students (see Exhibits 1 and 2). Through this policy change, the province expects it will be able to redistribute CAD110 million annually across all universities. However, in our opinion, McGill and Concordia bear downside risk in achieving this plan.

Exhibit 1
McGill sourced 49% of its undergraduate enrolment from outside of Quebec in 2022/23...



Source: McGill University

Exhibit 2
...while Concordia recorded 33% of total enrolment from outside the province in 2022/23.



Source: Concordia University

While complete funding details have not been formally presented by the province, the broad outline of the plan will increase the annual tuition fee for Canadian non-Quebec resident undergraduate and non-research graduate students to around CAD17,000 from approximately CAD9,000 currently. For international students, Quebec will impose a minimum annual tuition fee of approximately CAD20,000, although universities are able to charge above this fee.

The rise in the provincially set tuition fee for Canadian non-Quebec residents will result in both McGill's and Concordia's domestic tuition fees being the highest across Canadian

universities, where average undergraduate domestic tuition fees do not exceed CAD10,000, putting downward pressure on demand. The [University of British Columbia](#) (Aa1 stable), for example, charged Canadian students slightly more than CAD7,200 for year one of its Applied Science program. The fall 2023 undergraduate Canadian tuition for all programs at the [University of Toronto](#) (Aa1 stable), except for Computer Science and Management, was CAD6,590. As Canadian universities have struggled to attract domestic students in recent years, we believe non-Quebec universities, on aggregate, have the capacity to accept price sensitive students who otherwise would have chosen McGill or Concordia. Across our global higher education portfolio we note that students are more attentive to the value proposition of education and are increasingly price aware. We therefore believe McGill and Concordia will face decreased demand from Canadian students. The potential demand decline is difficult to establish as Quebec has historically set equal tuition fees for Quebec students as well as Canada non-Quebec residents for all universities in the province, which has meant neither McGill nor Concordia have solid insight into the price elasticity for their demand from Canadian students.

Lower demand among Canadian non-Quebec students could also weaken the reputation and strategic brand of both universities by materially altering the compositions of students. In its initial response to the proposal, McGill noted that its intervarsity athletics teams rely significantly on out-of-province students. Should it be less successful at attracting top athletes, it may need to terminate certain teams. Additionally, McGill noted similar pressures for the Schulich School of Music, which recruits a substantial share (40%) of highly specialized students from outside of the province.

In contrast, the effect on demand from international students will likely be minimal. Effective 2019, Quebec deregulated most international programs, allowing each institution to independently set tuition fees for international students. In the case of McGill and Concordia, international tuition is, in general, above the CAD20,000 minimum the province will impose. Fall 2023 tuition for an international student studying fine arts at Concordia, for example, was CAD29,215.

Despite the increase in tuition fees for Canadian non-Quebec residents, we do not believe either McGill's or Concordia's per student revenue will rise, although this is where the lack of full funding details leads to uncertainty. Quebec strongly controls the funding of universities through a funding formula whereby Quebec claims a portion of tuition raised by each university and provides grant funding per student, with grant levels program-dependent. It is our understanding that for Canadian non-Quebec residents, the entire increase in tuition will be claimed by the province while the per student funding flowing to the university (its share of tuition plus government grants) will remain the same as current levels. The province indicated it would redistribute the additional tuition across the entire higher education sector.

However, it is our understanding that for international tuition, the net amount of revenue McGill and Concordia will record per student will result in a net decrease per student relative to the current levels. This is due to the change in policy from the current approach, whereby international tuition is not partly claimed by the province nor does the province provide grant funding for these students. Effective Fall 2024 this will change as international students will be subject to the same broad funding parameters as Canadian non-Quebec resident students. As such, the province will claim a portion of the tuition and provide funding for each international student. However, the universities' share of tuition plus government funding is expected to be lower than the full tuition charged, which the universities currently collect entirely, with the difference potentially up to CAD5,000 per student on average. While McGill and Concordia could conceivably raise their international tuition an equivalent amount to negate this impact, we believe this would lower their current competitiveness as they have already set tuition fees at competitive levels in the years following the 2019 deregulation of most international programs.

As the change only affects students not yet enrolled, it will take four years before the policy change is fully captured in the finances of each institution, which allows some time for McGill and Concordia to find mitigation efforts. However, any enrolment-oriented mitigation efforts are not without complications. Quebec has mandated that all Quebec universities have a student population comprising 55% of Quebec students. Should either university wish to increase out-of-province students, it would also need to increase Quebec-sourced students to maintain the necessary ratio of students. As demographic pressures continue to weigh on demand from Quebec students, this scenario is not likely to occur in the near future. Should McGill and Concordia attempt to mitigate the likely decrease in Canadian non-Quebec resident students by increased enrolment of international students, this too would be credit

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

negative as it would further expose both schools to increased risk beyond their control, including from government policy changes concerning immigration, greater foreign exchange rate risk and geopolitical risks. Additionally, international students already account for approximately 25% of enrolment at both institutions, levels that are already above the median for Canadian universities.

Among the various goals of the new tuition policy stated by the province are the end of the subsidization of higher education for non-Quebec students (who frequently do not reside in Quebec once they graduate) and to achieve a better financial equilibrium across the province's higher education sector through a redistribution of international student tuition. Quebec noted that the three English universities in the province generated 69% of total international tuition collected by all Quebec universities between 2019 and 2022, while the 10 institutions within the Université de Québec network generated only 11.5%. The province anticipates that the planned tuition change will allow the entire higher education sector to benefit from the revenue generated by McGill's and Concordia's current strong demand among out of province students.

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved. CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1389643

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454