

CREDIT ANALYSIS

Table of Contents:

RATINGS	1
SUMMARY RATING RATIONALE	1
RATING OUTLOOK	1
WHAT COULD CHANGE THE RATING - UP	1
WHAT COULD CHANGE THE RATING - DOWN	1
ISSUER PROFILE	2
KEY RATING FACTORS	2
RATING HISTORY	6
ANNUAL STATISTICS	7
MOODY'S RELATED RESEARCH	12

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Concordia University, Quebec and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

Concordia University, Québec

Canada

Ratings

Concordia University, Québec

Category	Moody's Rating
Outlook	Stable
Bonds	Aa2

Summary Rating Rationale

Concordia University's Aa2 debt rating reflects the university's established market position and the Province of Québec's key public policy directive of ensuring access to higher education. Already set apart from other Québec universities as being one of the two major English language universities in the province, Concordia has established a unique niche by focusing on serving first-generation and non-traditional university students. The Aa2 rating also reflects the university's higher-than-average debt burden and limited sources of internal liquidity. This is somewhat offset by the close relationship with the Province of Québec, which we assume would provide assistance if Concordia were to experience an acute liquidity situation.

Rating Outlook

The outlook is stable.

What Could Change the Rating - Up

An increase to provincial operating support and/or greater flexibility to tuition setting, more diverse revenue streams and greater university fundraising efforts that contribute to significantly stronger internal liquidity could place upward pressure on the rating.

What Could Change the Rating - Down

A deterioration in the university's operating performance, and a large rise in debt burden could place downward pressure on the rating.

Issuer 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.

Key Rating Factors

Market Position

Important Role in Niche Market

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 of over 27,300 full-time equivalent students has been obtained through varying phases of growth. From 1998 to 2003 the student body expanded by 40%, but slowed to increase only 6.1% over the period 2004 to 2009. Since 2009, and in conjunction with their current strategic framework, Concordia has once again focused on increasing enrolment which has resulted in an average annual growth rate of 3.3%. This increase has been aided by the addition of the John Molson Business School building and Richard J. Renaud Science complex, which not only added more capacity to the university but has also helped attract students through their state-of-the-art facilities.

The university's strategy to reach out to international students has also helped to bolster enrolment and help offset relatively flat domestic tuition fees. Concordia is also seeking to increase the proportion of graduate students from the current level of 12% of enrolment to 20%. This goal will be aided by the recent opening of the new Centre for Structural and Functional Genomics on the Loyola Campus.

Concordia's Targeted Students Offset Demographic Factors

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 and first generation students more attracted to professional training than a traditional arts and sciences curriculum, could help the university continue to grow its enrolment over the longer term. The higher concentration of non-traditional and international students can also be attributed as a factor to the reduced impact seen at Concordia from the general student strike across Québec in the spring of 2012.

Government Relationship

Unsure Future Path of Tuition Framework

The provincial government had pledged to raise tuition C\$325 per year, for five years, stating in the autumn 2012 semester. In February 2012, college and university students staged months-long strikes, which resulted in the government reducing the planned annual tuition increase to C\$250 per student for seven years. However, the protests continued and the winter 2012 session was widely disrupted in several institutions, although less so for Concordia. Following a provincial election in September 2012, a change in government resulted in the cancellation of the planned tuition increase. This evolving environment resulted in Québec universities beginning the 2012-13 year with several unknowns in their budgets, a credit negative impact of the strong control by the province over universities' ability to raise revenue.

In February 2013, the Québec government announced that tuition would rise by 3% annually, starting with the fall 2013-14 semester. It also pledged to reinvest C\$1.7 billion into higher education, although this reinvestment will not likely begin until 2014-15. We will continue to monitor the province's funding plans for Québec universities.

Strong Ongoing Provincial Support

The province of Québec provides strong ongoing financial support to the university, with approximately half of Concordia's revenues derived from provincial grants. In addition, a large portion of the university's capital expenditures benefit from provincial subsidies. Under the province's capital subsidy program universities receive government funding, upon receipt of provincial approval, in the guise of "grant bonds" which are public borrowings issued under the university's name, or loans from Financement-Québec. Grant bonds and Financement-Québec loans are managed, administered and serviced by the province. The university also conducts extensive consultations with the province before engaging in significant borrowing that is not subsidized.

Governance and Management

Provincial Legislation Determines University's Governance Structure

Concordia University derives its authority from provincial law – the Concordia University Act. The Act currently sets debt limits of C\$700 million, which may be revised when required with approval of the province. The Act specifies that a board of governors of 20 to 40 members, elected by the members, is to regulate financial matters, including borrowing, and to nominate the President and executive officers. The Province of Québec has draft legislation that would require the Boards of universities to exhibit greater independence. Concordia has acted proactively by reducing the size of the Board to 25, with 15 members from outside the University. As with most Canadian universities, the governance of Concordia is bicameral with a separate Senate that oversees academic affairs and confers degrees.

Compared to the stability brought to the University from 1974 to 2005 when the first three presidents/rectors each served for 10 years, the governance of the university has undergone some instability since 2005. With the nomination of the most current president in August 2012, Concordia has seen 5 people occupy the President's chair over the past 7 years. Moody's would view greater stability within the executive administration as a sign of stronger governance and management characteristics.

The university exhibits conservative management as evidenced by multi-year planning and the setting of specific benchmarks. Concordia also implements prudent investment and debt management policies. The university works closely with the province, seeking provincial input for major financial undertakings.

Operating Performance

String of Positive Results Continued in 2011-12

With strong reliance on formula-driven provincial operating grants coupled with Concordia's prudent management practices, the university's operating results have been relatively stable with recent reporting of positive results. The adjusted net income recorded in 2011-12, equivalent to 3.7% of adjusted revenue, was the highest level recorded since 2001-02. Concordia has undertaken an extensive review of its programs over the past few years, establishing excellent cost knowledge for each program, which has helped the university to better match expenses with revenue potential to further ensure positive operating results.

Adjusted revenue grew at a slightly faster pace than adjusted expenses between 2010-11 and 2011-12 (12.4% and 10.4% respectively). Government funding for operations as a share of revenue fell from 47.4% in 2010-11 to 46.6% in 2011-12, highlighting, in part, the relative decline in provincial transfers as the province focuses on returning to balanced budgets as well as Concordia's ability to offset this through other revenue means.

Results for 2012-13 Expected to Reflect Impact of Cuts to Planned Tuition Increases

As discussed above, in preparing their 2012-13 budgets, Québec's universities were under an evolving environment in terms of tuition framework. Although the tuition increases were canceled by the new government, the province did pledge to offset the loss in tuition revenues through higher transfers. However, these funds were not made available at the start of the 2012-13 academic year, and the political discussion moved more towards ensuring future revenue guidance than the current situation. The government has indicated, however, that Concordia will receive C\$4 million, at a future date, in compensation for the tuition rollback.

Furthermore, to ensure that the province met its own fiscal goals for 2012-13, the university sector in Québec was asked in December 2012 to reduce C\$124 million from their 2012-13 budgets. For Concordia, this represents a reduction of C\$13.2 million. In January 2013, the Board approved a new 2012-13 budget that allowed for a deficit of up to C\$7.5 million. Concordia also faces cuts of the same magnitude for 2013-14, although we expect the university to address the challenges these cuts will impose.

The university is also undertaking labour negotiations with all 10 of its bargaining groups throughout the 2012-13 year, which presents a considerable level of uncertainty over its largest expense.

Debt Profile

Relatively High Debt Burden, Supported by Province

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. As these subsidies cover 100% of debt service payments, we do not include this debt as part of the university's debt burden. As such, Concordia's non-supported debt is made up principally of a C\$200 million 40 year bullet

debenture. Additionally, the university contracted a 5 year swap rate term loan, with annual principal-only payments, for C\$20 million in June 2010.

Concordia University has a relatively high debt burden which measured 57.5% of adjusted revenues at April 30, 2012. However, this debt burden includes draw-downs from the university's line of credit, which is often accessed in advance of receiving provincial financing. Excluding this temporary source of financing, Concordia's debt burden would have measured 43.7% at the end of fiscal 2011-12.

The university's debt burden, including temporary borrowings made through the line of credit, remains slightly higher than that of most Canadian universities rated by Moody's. 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. Moreover, non-subsidized interest payments consumed 2.6% of revenue in 2011-12, a level that is considered manageable and does not constrain fiscal flexibility unduly.

Concordia faces physical limits for capital expansion on its main campus, which is located in the densely built downtown of Montréal. The university has capital plans to modify a portion of its library to house classrooms and other teaching facilities. It also continues to renovate the former Grey Nuns convent into residences. Most recently, it purchased a significant portion of a large commercial building which it intends to convert into classrooms to coincide with the renovations to the library. Due to these measured approaches of capital acquisition, we anticipate Concordia's debt profile to increase at a moderate and manageable rate over the medium term.

Balance Sheet Strength

Limited Sources of Internal Liquidity

Concordia University has a limited level of financial resources under its direct control, which exposes it to potential operating volatility. The university held only C\$2.5 million in cash and investments, but an associated foundation held an additional C\$127.4 million in financial assets at April 30, 2012. The bulk of these funds are externally restricted with an additional C\$33.1 million, as of April 30, 2012, set aside by the foundation for retirement of long-term debt held by the university.

While the university relies on a demand line of credit for short-term funding needs, which is often accessed in advance of receiving grants bonds, comfort is derived from historical maintenance of the bank line during periods of financial stress. Furthermore, the balance as of April 30, 2012 of the short-term line of credit remained at a level considerably lower than the peak obtained in 2008 which provides the university with greater flexibility to increase the amount drawn if required. Additionally, in the event of an emergency the university has access to short-term loans from Financement-Québec, a provincial Crown Corporation set up for the purpose of financing universities and hospitals.

Application of Joint-Default Analysis

As a reflection of the application of Moody's joint-default analysis rating methodology for government-related issuers, Concordia University's Aa2 debt rating is composed of two principal inputs: a baseline credit assessment (BCA) of a1 and a high likelihood of support that the Province of Québec (Aa2, stable) would act to prevent a default by the university. The high likelihood of support reflects Moody's assessment of the risk posed to the province's reputation as a regulator of the university sector if Concordia University, or any other Québec university, were to default.

Rating History

Concordia University, Québec

Date	Rating
November 2006	Aa2
June 2006	Aa3
July 2002	A1

Annual Statistics

Concordia University, Québec

Debt Statement (C\$000S, AS AT 31/05)	2008	2009	2010	2011 ^[1]	2012
Bank Overdraft	0	1,627	1,863	4,018	0
Short-Term Line of Credit ^[2]	116,400	65,600	72,111	56,615	69,264
Grant Bonds	244,018	300,355	312,625	319,624	295,028
Other Bonds	195,939	196,886	197,521	217,583	219,266
Total Direct Debt	556,357	564,468	584,120	597,840	583,558
Less					
Amounts Guaranteed By Quebec	221,691	278,350	288,368	298,289	280,279
Associated Sinking Funds Paid by Quebec	22,327	22,005	24,257	21,335	14,749
Net Direct Debt ^[3]	312,339	264,113	271,495	278,216	288,530
Less: Short-Term Line of Credit	116,400	65,600	72,111	56,615	69,264
Net Direct Debt (Net of Short-Term Lines of Credit) ^[3]	195,939	198,513	199,384	221,601	219,266

[1] Fiscal yearend changed to April 30 starting in 2011. 2011 fiscal year consists of the 11 months ending April 30, 2011.

[2] A significant portion of short-term borrowing is carried out in advance of grant bonds.

[3] Amounts netted off total direct debt excludes sinking funds set aside at the Concordia University Foundation, which amounted to \$33.1m in 2012.

Concordia University, Québec

Debt Trends (As At 31/05)	2008	2009	2010	2011 ^[1]	2012
Net Direct Debt per Student (C\$, per FTE)	12,763	10,645	10,432	10,352	10,560
Net Direct Debt as a % of Revenue ^[2]	75.5	61.0	60.9	62.3	57.5

[1] Fiscal yearend changed to April 30 starting in 2011. 2011 fiscal year consists of the 11 months ending April 30, 2011.

[2] Revenues net of provincial debt service subsidies.

Concordia University, Québec

Market Demand Trends	2008	2009	2010	2011	2012
Total Enrolment (FTE)	24,473	24,811	26,026	26,876	27,323
Undergraduate Students	21,539	21,948	22,927	23,563	23,894
Undergraduate Students as a % of Total	88.0	88.5	88.1	87.7	87.5
Selectivity (%) ^[1]	65.8	64.0	65.7	65.9	63.3
Matriculation (%) ^[2]	69.5	69.0	64.8	60.3	63.5

[1] Number of acceptances divided by number of applicants.

[2] Number of students enrolling divided by number of acceptances.

Concordia University, Québec

Income Statement (C\$000s, Year Ending 31/05)	2008	2009 ^[1]	2010	2011 ^[2]	2012
Revenues^[3]					
Tuition	70,428	75,914	85,178	94,582	102,693
Provincial Operating Grants	197,501	215,035	224,145	211,795	234,057
Other Provincial Grants	30,284	40,034	19,932	26,766	42,563
Research Grants and Contracts	32,430	28,362	30,774	28,894	31,137
Donations	8,545	2,709	7,277	5,992	5,379
Auxiliary Enterprises	23,642	23,060	23,326	23,471	24,224
Concordia University Foundation	9,857	4,922	3,138	5,092	6,118
Other	59,584	61,519	67,263	64,037	71,461
Total Revenues	432,271	451,555	461,033	460,629	517,632
Expenses^[3]					
Academic Services	212,012	195,455	204,659	195,190	217,973
Administrative Services	83,219	74,933	66,642	74,509	78,582
Research	39,672	36,167	38,292	38,091	41,029
Auxiliary Services	18,331	16,336	16,121	15,818	16,021
Interest Payments	13,902	13,783	13,175	12,176	13,176
Other Interest Payments ^[4]	18,580	18,869	15,133	13,996	15,677
Amortization	29,039	31,014	32,308	31,623	34,839
Concordia University Foundation	8,995	7,507	5,912	8,075	9,648
Pension and Other Retirement Plans		18,170	29,144	34,440	36,044
Other	30,861	24,218	54,999	27,698	35,904
Total Expenses	454,611	436,452	476,385	451,616	498,893
Net Income	(22,340)	15,103	(15,352)	9,013	18,739
Adjusted Revenues ^[5]	413,691	432,686	445,900	446,633	501,955
Adjusted Expenditures ^[5]	436,031	417,583	461,252	437,620	483,216
Adjusted Net Income	(22,340)	15,103	(15,352)	9,013	18,739
Funds From Operations	6,699	35,714	26,087	55,903	60,294
Free Cash Flow	(33,426)	(8,771)	(16,957)	(10,087)	3,975

[1] GAAP was adopted in 2010; 2010 and restated 2009 figures are not directly comparable to prior years.

[2] Fiscal yearend changed to April 30 starting in 2011. 2011 fiscal year consists of the 11 months ending April 30, 2011.

[3] Includes operating and restricted funds.

[4] Offset by provincial subsidies.

[5] Net of provincial debt service subsidies. Not adjusted for capital expenditures recorded in-year.

Concordia University, Québec

Financial Trends (Year Ending 31/05)	2008	2009^[1]	2010	2011^[2]	2012
Government Funding for Operations as a % of Revenue ^[3]	47.7	49.7	50.3	47.4	46.6
Net Tuition as a % of Revenue ^{[3][4]}	17.0	17.5	19.1	21.2	20.5
Interest Expense as a % of Revenue ^{[3][5]}	3.4	3.2	3.0	2.7	2.6
Debt Service as a % of Revenue ^{[5][6]}	3.4	3.2	3.0	2.7	2.6
Research Grants as % Revenue ^[3]	7.8	6.6	6.9	6.5	6.2
Funds From Operations as a % of Revenue ^[3]	1.6	8.3	5.9	12.5	12.0
Annual Operating Margin (%)	(5.4)	3.5	(3.4)	2.0	3.7
Average Operating Margin (%)	(5.0)	(1.8)	(1.8)	0.7	0.8
Funds From Operations/Interest (x)	0.5	2.6	2.0	4.6	4.6

[1] GAAP was adopted in 2010; 2010 and restated 2009 figures are not directly comparable to prior years.

[2] Fiscal yearend changed to April 30 starting in 2011. 2011 fiscal year consists of the 11 months ending April 30, 2011.

[3] Revenues net of provincial debt service subsidies.

[4] Tuition revenues before scholarship expenses.

[5] Interest net of provincial subsidies.

[6] Principal repayments are net of provincial subsidies.

Concordia University, Québec

Balance Sheet (C\$000s, As At 31/05)	2008	2009 ^[1]	2010	2011 ^[2]	2012
Assets					
Cash and Cash Equivalents	376	-	-		2,544
Investments	142	30	35	6,844	7
Receivables	23,933	20,215	22,486	24,526	17,887
Due from the Province of Quebec	71,729	200,257	189,831	183,241	176,713
Capital Assets	589,795	623,961	638,556	695,850	731,142
Other Assets	193,824	186,522	180,330	199,841	188,828
Total Assets	879,799	1,030,985	1,031,238	1,110,302	1,117,121
Liabilities					
Bank Overdraft	-	1,627	1,863	4,018	-
Bank Loans	116,400	65,600	72,111	56,615	69,264
Long-Term Debt	417,630	475,236	485,889	515,872	499,545
Deferred Contributions		66,633	76,610	94,381	110,839
Future Benefits		74,840	77,761	83,287	89,738
Other Liabilities	276,637	282,698	268,239	297,081	270,627
Total Liabilities	810,667	966,634	982,473	1,051,254	1,040,013
Net Assets					
Unrestricted Deficit	(39,394)	(112,307)	(127,856)	(140,047)	(146,166)
Internally Restricted	23,145	29,140	33,989	52,377	60,002
Externally Restricted	50,899	244	11	1,979	1,079
Invested in Capital Assets	34,482	147,274	142,621	144,739	162,193
Total Net Assets	69,132	64,351	48,765	59,048	77,108
Foundation Assets and Fund Balances					
Cash and Cash Equivalents	3,412	6,171	16,253	16,932	20,075
Investments ^[3]	124,213	94,847	108,716	115,922	107,316
Internally Restricted ^[3]	7,002	2,610	2,650	2,819	2,437
Restricted ^[3]	48,034	24,679	45,595	54,684	51,125
Endowment ^[3]	58,293	60,396	62,582	64,359	66,930

[1] GAAP was adopted in 2010; 2010 and restated 2009 figures are not directly comparable to prior years.

[2] Fiscal yearend changed to April 30 starting in 2011. 2011 fiscal year consists of the 11 months ending April 30, 2011.

[3] Market value.

Concordia University, Québec

Balance Sheet Trends (As At 31/05)	2008	2009^[1]	2010	2011^[2]	2012
Total Cash and Investments (C\$, '000s) ^[3]	128,142	101,047	125,003	139,699	129,942
Total Cash and Investments Per FTE (C\$)	5,236	4,073	4,803	5,198	4,756
Net Cash and Investments (C\$, '000s) ^[4]	7,002	2,610	2,650	2,819	2,437
Net Cash and Investments per FTE (C\$)	286	105	102	105	89
Net Cash and Investments-to-Operations (x)	0.02	0.01	0.01	0.01	0.01

Net Direct Debt

Total Cash and Investments-to-Net Direct Debt (x)	0.41	0.38	0.46	0.50	0.45
Net Cash and Investments-to-Net Direct Debt (x)	0.02	0.01	0.01	0.01	0.01
Net Direct Debt as a % of Revenue ^[5]	75.5	61.0	60.9	62.3	57.5
Net Direct Debt per FTE (C\$)	12,763	10,645	10,432	10,352	10,560

Net Direct Debt (Net of Short-Term Bank Loans)

Total Cash and Investments-to-Net Direct Debt (x)	0.65	0.51	0.63	0.63	0.59
Net Direct Debt as a % of Revenue ^[5]	47.4	45.9	44.7	49.6	43.7
Net Direct Debt per FTE (C\$)	8,006	8,001	7,661	8,245	8,025

[1] GAAP was adopted in 2010; 2010 and restated 2009 figures are not directly comparable to prior years.

[2] Fiscal yearend changed to April 30 starting in 2011. 2011 fiscal year consists of the 11 months ending April 30, 2011.

[3] Includes Concordia University Foundation.

[4] Net of unspent portion of debenture proceeds and externally restricted endowments; includes Concordia University Foundation.

[5] Revenue is net of provincial debt service subsidies.

Moody's Related Research

Credit Opinion:

- » [Canada, Government of](#)

Analysis:

- » [Quebec, Province of, July 2012 \(143786\)](#)

Special Comment:

- » [Canadian Provinces Consolidating Finances in 2012, March 2012 \(140455\)](#)

Statistical Handbook:

- » [Non-U.S. Regional and Local Governments, December 2012 \(147414\)](#)

Rating Methodologies:

- » [Methodology for Rating Public Universities, August 2007 \(103498\)](#)
- » [Government-Related Issuers: Methodology Update, July 2010 \(126031\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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