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INVESTORS SERVICE

CREDIT OPINION
14 April 2016

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, Quebec

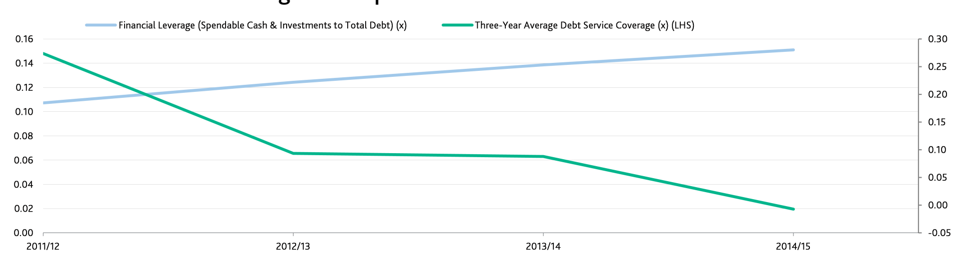
Update Following Recent Rating Action

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. Already set apart from most 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. These credit positives are offset by a lower level of financial flexibility and liquidity resulting from several years of weak operating performance. This weaker performance has also resulted in a downward trend in debt service coverage from operations. The 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.

Exhibit 1

Modest improvement in spendable cash and investments relative to debt offset by downward trend in debt service coverage from operations



Source: Moody's Investors Service, Concordia University's 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.

Credit Strengths

» Strategic position supported by strong management and solid market profile

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

Credit Challenges

» Weak operating cash flow arising from reduced provincial funding

» Relatively weak liquidity despite good levels of total wealth

» Moderate debt burden expected to increase weakening already low 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.

Recent Developments

On April 1, 2016, the long-term debt rating for Concordia University was lowered to Aa3 from Aa2 and the baseline credit assessment (BCA) was lowered to a2 from a1. The stable outlook was unchanged. The downgrade to Aa3 reflects our opinion that the university's financial health has deteriorated after several years of restrictive provincial funding, leading to consolidated deficits in two of the last three years, and that Concordia's leverage metrics will remain weak across the medium-term as provincial reinvestment will remain limited. The university posts a relatively weak debt affordability (measured by total debt to cash flow) and a higher reliance on its line of credit than higher rated peers.

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

	2011	2012	2013	2014	2015
Operating Revenue (CAD Million) [1]	429,152	470,249	479,537	506,508	496,457
Annual Change in Operating Revenue (%)	(0.6)	9.6	2.0	5.6	(2.0)
Operating Cash Flow Margin (%)	5.4	4.6	(5.7)	5.7	(0.7)
Total Cash and Investments (CAD Million)	140,274	130,621	143,195	158,978	171,214
Spendable Cash and Investments to Operating Expenses (x)	0.17	0.13	0.13	0.17	0.17
Total Debt to Cash Flow (x)	25.8	27.1	(21.6)	22.0	(192.8)

[1] Revenue net of scholarship expense
Source: Moody's Investors Service

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 (FTE), up from 24,400 in 2007/08, representing a 1.9% compound annual growth rate. 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 market position, with a strong 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 maintain its enrolment over the longer term. The university's strategy to increase its recruitment of international students, targeting markets where student needs 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.

Although the university has posted consolidated deficits in recent years, the university's fiscal position has been hampered by the unpredictable provincial funding over the period 2012-2015, a result of the province's own efforts to return to balanced budgets. Despite these challenges, the university's management has continued to largely follow its long-term plans, including important infrastructure renewal which has helped Concordia prevent an increase in deferred maintenance seen in other Canadian universities.

The university also continues to improve upon on internal management and policies. In October 2014, as part of strengthening its governance and risk management, Concordia adopted a new 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. This new policy included a fiscal capacity and affordability determination framework to guide the university on financial planning of capital investments, 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 2.6% of adjusted revenue in 2014-15, a level that is considered manageable and does not constrain fiscal flexibility unduly. In line with the decline in the university's debt burden, this metric has fallen from 3.0% recorded in 2009-10. 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.

WEAK OPERATING CASH FLOW ARISING FROM REDUCED PROVINCIAL FUNDING

Québec universities have been forced to react to changes to the financial arrangements with the province consistently since 2012. These changes have varied from the removal of planned reinvestments, changes to the tuition setting framework and mid-year reductions in funding allocations, often with only a few months left in the fiscal year.

The timing and nature of these announcements has had a disruptive impact on the planning of the universities. Québec universities have had to face numerous adjustments to budgets and look for efficiencies mid-year to meet the provincial requirements, often using reserves to help fund operations and building other pressures due to the imposition of temporary reductions to departmental budgets. While Concordia has been able to offset some of these pressures with efficiency measures, each round of funding reduction has been hard to absorb.

Concordia has posted Moody's-adjusted negative operating cash flow in two of the last three years. Despite an improvement from -5.7% in 2012-13 to -0.7% in 2014-15, Concordia's operating cash flow margin is quite poor compared to Canadian peers. As the province has returned to balanced budgets, we expect funding restrictions to moderate over the medium-term, providing Concordia, and other Québec universities, the opportunity to set budgets at the beginning of the year and follow them throughout without revisions mid-year. Even with the lack of reinvestment on the part of the province, provided the opportunity to operate under a stable operating environment should allow Concordia to return to balanced budget outcomes.

RELATIVELY WEAK LIQUIDITY DESPITE GOOD LEVELS OF TOTAL WEALTH

Total cash and investments measured CAD171.2 million as of April 30, 2015. The bulk of these funds, however, are externally restricted and held in Concordia's associated foundation. Spendable cash and investments represented only 0.15x total debt and 0.17x operating expenses. Monthly days cash on hand was only 68 in 2014/15, 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, 2015, Concordia had drawn CAD65.8 million on its line of credit, up from CAD42.9 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, 2015, the sinking fund had a value of CAD50.4 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, TOTAL DEBT TO CASH FLOW POOR

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 imposed by the provincial government, 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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