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INVESTORS SERVICE

CREDIT OPINION
9 February 2021

Update

Rate this Research

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.

Contacts

Michael Yake +1.416.214.3865
Senior Vice President/Manager
michael.yake@moodys.com

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

Alejandro Olivo +1.212.553.3837
Managing Director
alejandro.olivo@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
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Concordia University, Quebec (Canada)

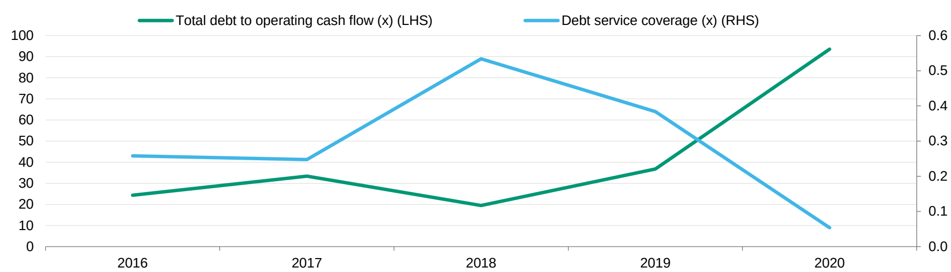
Update to credit analysis

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, which will continue to be weak in the face of pressure from the coronavirus pandemic. The university also posts low liquidity. 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

» Strategic profile supported by strong market position and high quality of management

» New funding framework supportive of Concordia's operations and strategic position

» Adequate level of total wealth supports long-term planning

Credit challenges

» Weak leverage notwithstanding the presence of provincial debt service subsidies

» Multi-year operating pressure expected to return due to coronavirus pandemic

» Weak levels of own source liquidity

Rating outlook

The outlook is stable. This reflects our forecast that although the university's operating outcomes will weaken during the duration of the coronavirus pandemic, resulting in further downward pressure on already weak leverage metrics, this pressure will be resolved without enduring impacts on the credit quality of Concordia.

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 sustained material deterioration in cash flow generation, resulting from an ability to contain the rising pressure from the pandemic and providing evidence of a weaker quality of management than currently ascribed, could put downward pressure on the rating. Additionally, a material increase in debt or sustained weakening of leverage beyond forecasted levels could put downward pressure on the rating.

Key indicators

Exhibit 2
Concordia University
Year ending April 30

Key Indicators	2016	2017	2018	2019	2020
Operating Revenue (CAD Millions)[1]	477	507	524	570	575
Annual Change in Operating Revenue (%)	(6.4)	6.3	3.2	8.9	0.8
Operating Cash Flow Margin (%)	5.7	4.0	6.5	3.7	1.5
Total Cash and Investments (CAD Millions)	173	200	192	295	290
Spendable Cash and Investments to Operating Expenses (x)	0.18	0.22	0.20	0.33	0.27
Total Debt to Cash Flow (x)	24.33	33.44	19.50	36.77	93.57

[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.

Strategic profile supported by strong market position and high quality of management

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. The reputation of the university is also boosted by the John Molson School of Business which routinely ranks among the top 10 in Canada and within the top 100 globally.

The governance and management of the university makes ample use of forward-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 was able to return to the university to balanced operating outcomes (according to the provincial calculation) prior to the arrival of the coronavirus pandemic. 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. In October 2020 the university launched its Sustainability Action Plan which outlines Concordia's goals to engage on various sustainable factors including positioning its research towards sustainability issues and fostering sustainability concepts in the curriculum of programs.

Despite the onset of the coronavirus pandemic in the last weeks of the 2019/20 fiscal year, Concordia university was able to quickly transition to online course delivery with minimal additional costs. Overall, the impact of the pandemic was CAD5 million. Facing a very uncertain operating environment the university took a prudent planning approach for 2020/21, implement various cost savings measures early and incorporating a CAD25 million reserve in its financial plan to cover further impacts from the pandemic. We note that enrolment remained more robust than initially planned, consistent with the higher education in general across Canada, which should mitigate the negative operating impacts for 2020/21.

New funding framework supportive of Concordia's operations and strategic position

Ongoing positive impacts from recent changes to government funding will assist Concordia's operations through increased government funding and improved ability to directly set international tuition rates.

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).

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.

Adequate level of total wealth supports long-term planning

Concordia maintains an adequate level of total wealth consistent with similarly rated peers. These funds will provide sufficient shock absorption capacity during the next 2-3 years as the university navigates the temporary budget pressure arising from the coronavirus pandemic.

Total cash and investments measured CAD290 million in 2019/20, down marginally from CAD294.5 million recorded in 2018/19, but still substantially higher than the CAD173.4 million recorded in 2015/16. The growth of the university's overall wealth over the past several years supports it's commitment to long term planning and strategic investment.

A significant portion of total wealth (60%) is in the form of spendable cash, while the remaining 40% is in externally restricted funds. Concordia is currently undertaking a multi-year fundraising campaign with a goal of CAD250 million, the largest campaign in the university's history. Funds from this campaign will go towards projects that support nine different strategic initiatives supporting the university's “next generation” position.

Concordia has a robust investment policy with clear guidelines on mix of assets, accessibility of funds, allocation alignment with strategic priorities and risk tolerance.

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.

The university's ratio of total debt to cash flow averaged 41.5x across the period 2015/16-2019/20, a poor level. Excluding the exceptionally poor ratio recorded in 2019/20 (93.6x) that reflects the dramatic fall in operating cash flow as the university was impacted by the onset of the coronavirus pandemic, Concordia's 4 year average total debt to cash flow (2015/16-2018/19) averaged 28.5x which is still a very low level.

Given the volatility in operating cash flow, which we anticipate will continue during the challenging environment framed by the coronavirus pandemic, we also take into consideration Concordia's leverage relative to spendable cash and investments. On this metric, Concordia's financial leverage remained relatively constant over the past five years, improving from coverage of total debt from 0.14x in 2015/16 to 0.21x in 2019/20. While still considered poor, this measure provides a signal of the stability of Concordia's leverage relative to a source of financial strength under more control of the university than operating outcomes in the current environment.

Concordia also benefits from material levels of provincial debt subsidies which ensures that the interest payments on Concordia's non-subsidized debt remain affordable. Non-subsidized interest payments on long-term debt consumed 3.3% of adjusted operating revenue in 2019/20, 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.

Following debenture issuances totaling CAD75 million in 2018/19, the university is not expecting to acquire material levels of 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, any debt accumulation will likely be in line with the growth of the university's operations, keeping total debt relative to spendable cash and investment relative constant over this period.

Multi-year operating pressure expected to return due to coronavirus pandemic

The emergence of the coronavirus pandemic and related impacts will lead Concordia to return to several years of challenged operating results. This contrasts to our pre-pandemic forecasts of continued balanced budgets and improving operating results for the university. Concordia estimates that over the three year period 2020/21-2022/23 cumulative deficits could lie within the range CAD28-45 million, equivalent to 5-8% of the operating budget. As of October 31 2020, the university was facing CAD9.7 million in impacts from the pandemic for 2020/21, with roughly one-third attributed to spending pressure, two-thirds from revenue pressure.

While academic operations have to date faced less pressure from the pandemic due to resilient enrolment levels and relatively low additional costs related to the transition to online learning, these trends may shift to negative should the pandemic last for longer and lead to changes in demand. Mitigating some risk over uncertain enrolment, Québec has announced that 2020/21 enrolment will not be considered in future funding levels, therefore protecting provincial grants in the future. We anticipate that throughout the duration of the pandemic and recovery, the university will face the greatest additional financial pressure from ancillary services.

This will place downward pressure on cash flow margins. Given the efforts Concordia has undertaken to find savings reductions and efficiencies in its operations in the past to achieve budgetary balance just prior to the onset of the coronavirus outbreak, this new pressure will challenge the university to find additional savings.

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.

An improved fiscal position has permitted Quebec to increase operating and capital grants to universities across the province in both 2018/19 and 2019/20. 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.

Weak levels of own source liquidity

Despite the adequate levels of total wealth, Concordia records low levels of unrestricted liquidity compared to national peers. Spendable cash and investments, which excludes externally restricted funds, measured CAD173.4 million in 2019/20, down slightly from CAD 205.4 million in 2018/19. Furthermore, our estimate of monthly liquidity, which takes into consideration cash and investments free from external restrictions and which can be accessed within 30 days, provides coverage of only 12 days of the university's operations. This is a very low level compared to peers at similar rating levels. 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. At April 30, 2020, Concordia had drawn CAD132.5 million of its CAD370 million line of credit, 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.

Our published liquidity metrics do not, however, take into consideration important debt service provided directly by the province of Québec. Given Québec directly services over 40% of Concordia's outstanding debt, monthly liquidity held by Concordia covers 0.9x the university's interest expense offering additional protection to bondholders. However, should Concordia use reserves to finance the operating deficits anticipated over the next 2-3 years, this will lead to lower coverage.

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 has a Sustainability Action Plan that outlines its goals to increase its ability to adhere to sustainable principles as well as steer the research and academic curriculum towards sustainability issues.

Social risks are material to universities' credit profiles given the importance of demographic trends and societal valuation of higher education to drive demand. We assess social risks for Concordia as moderate given ongoing pressures from domestic demographic declines in university entrance-age population, which places greater reliability on the university to recruit international students. The coronavirus outbreak is also viewed as a social risk as it adds to the uncertainty on enrolment levels as travel restrictions, health concerns and economic factors may alter students' willingness to enrol. Other social factors that could be impacted by the coronavirus outbreak, including changing demands (or accelerating changes already in transition) 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 (February 2020) methodologies.

Exhibit 3

Concordia University

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Market Profile (30%)**		
	Scope of Operations (Operating Revenue) ($000)	574,631	Aa3
	Reputation and Pricing Power (Annual Change in Operating Revenue) (%)	0.8	Ba3
	Strategic Positioning	Aa	Aa
Factor 2:	**Operating Performance (25%)**		
	Operating Results (Operating Cash Flow Margin) (%)	1.5	Baa3
	Revenue Diversity (Maximum Single Contribution) (%)	57.4	A1
Factor 3:	**Wealth & Liquidity (25%)**		
	Total Wealth (Total Cash & Investments) ($000)	289,974	Aa3
	Operating Reserve (Spendable Cash & Investments to Operating Expenses) (x)	0.3	A1
	Liquidity (Monthly Days Cash on Hand)	12	B1
Factor 4:	**Leverage (20%)**		
	Financial Leverage (Spendable Cash & Investments to Total Debt) (x)	0.2	A3
	Debt Affordability (Total Debt to Cash Flow) (x)	93.6	C
	Scorecard-Indicated Outcome		baa1
	Assigned BCA		a2

Data is based on most recent fiscal year available. Debt may include proforma 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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