

## CREDIT OPINION

5 August 2022

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 (Canada)

Update following assignment of ESG scores

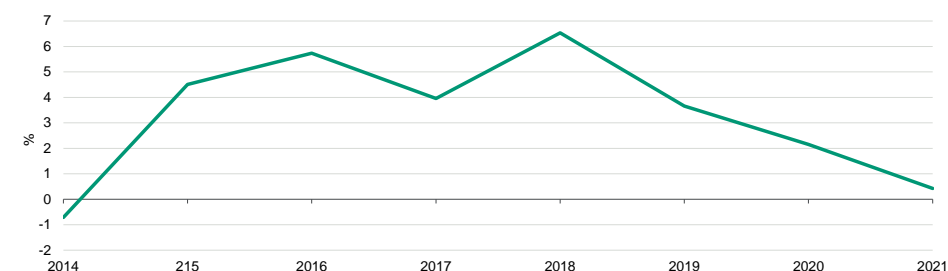
### Summary

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 provincial funding formula that protects against pandemic related impacts. Among credit challenges, Concordia records weak EBIDA margins, which will persist in 2021-22 and likely 2022-23 as the university addresses ongoing pressure from the coronavirus pandemic. 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

**Although typically modest in the range of 4-7%, Concordia's EBIDA margin deteriorated in fiscal years 2020 and 2021 due to the onset of the coronavirus pandemic**

Year ending April 30



Source: Moody's Investors Service

### Credit strengths

- » Very good brand and strategic positioning supported by strong market position and high quality of management
- » Provincial funding framework supports return to stronger operating performance
- » Adequate level of total wealth supports long-term planning

### Credit challenges

- » Weak leverage and coverage notwithstanding presence of provincial debt service subsidies
- » Operating pressure to persist for duration of coronavirus pandemic and need to support strategic initiatives
- » Significant share of revenue tied to student levels

## Rating outlook

The outlook is stable. This reflects our forecast that although the university's operating outcomes will remain weak, resulting in poor EBIDA and annual debt service coverage metrics, this pressure will be restricted to the duration of direct coronavirus pandemic pressure and subsequently resolved without enduring impacts on the credit quality of Concordia.

## Factors that could lead to an upgrade

A sustained material improvement to EBIDA margin as a result of positive budgetary balances, also leading to sustained material improvement in debt service coverage, 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 EBIDA margin at current levels, resulting from an inability to contain the rising pressure from the pandemic and which would run counter to our current opinion that these pressures are temporary, could put downward pressure on the rating. Sustained weak operating performance could also indicate a weaker quality of financial policy than currently ascribed. Additionally, a material increase in debt or sustained weakening of leverage beyond forecasted levels could also put downward pressure on the rating.

## Key indicators

Exhibit 2

### Concordia University Year ending April 30

	2017	2018	2019	2020	2021
Operating revenue (CAD '000)	507,272	523,554	569,996	574,631	581,979
EBIDA margin (%)	4.0	6.5	3.7	2.1	0.4
Total cash and investments (CAD '000)	200,108	192,203	294,531	289,974	347,678
Total cash and investments to operating expenses (x)	0.36	0.34	0.47	0.45	0.53
Total cash and investments to total adjusted debt (x)	0.28	0.26	0.35	0.32	0.40
Annual debt service coverage (x)	0.25	0.53	0.38	0.08	0.04

Revenue is net of scholarship expense

Sources: Concordia University and Moody's Investors Service

## Detailed credit considerations

### Baseline credit assessment

The credit profile of Concordia University, as expressed by its 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.

### Very good brand and strategic position supported by strong market position and high quality of management

Concordia's very good brand and strategic profile reflects its unique blend of program offerings which 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

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the provincial calculation) prior to the arrival of the coronavirus pandemic. This track record supports of opinion that the pandemic will lead to only temporary operating weakness due to reduced on-campus activity. Unlike many Canadian peers, Concordia continues to invest in strategic initiatives during the pandemic to ensure its market position will remain solid once the pandemic pressure eases. 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 ever 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.

#### **Provincial funding framework supports return to stronger operating performance**

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.

The province has also announced that operating grants (which are based on 2 year lagged actual enrolment levels) will not be impacted by pandemic factors. Operating grants through 2023-24 will be based on the higher of either actual enrolment levels or an average of enrolment levels recorded between 2016-17 and 2018-19. This approach ensures that no university will see a negative impact on operating grants due to pandemic-related impacts on enrolment.

#### **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 years as the university continues to navigate the temporary budget pressure arising from the coronavirus pandemic. It will also help support the continued spending by Concordia on new strategic initiatives to bolster its strategic position.

Total cash and investments measured CAD347 million in 2020-21, up 19.9% from the prior year. The university has recorded a strengthening of its cash and investments levels over the past 5 years. While we note some improvement of the coverage of operating expenses by cash and investments in 2020-21 (0.53x vs 0.45x in 2019-20) reflects the lower level of expenses undertaken by the university in the year, the upward trend has been noticeable since at least 2013-14, when total cash and investments provided only 0.28x coverage of operating expenses. The growth of the university's overall wealth over the past several years supports its commitment to long term planning and strategic investment.

More than half of Concordia's total wealth is in spendable cash, with a minority in externally restricted funds. This is a result of Concordia's relatively smaller alumni base and endowment profile. 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.

Supporting its wealth management, 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 and coverage notwithstanding 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.

Total cash and investments provided only 0.4x coverage of total adjusted debt in 2020-21. However, as with coverage of operating expenses, coverage of total adjusted debt has also improved since 2013-14 when it measured a very poor 0.16x. Nonetheless, the current level continues to weigh negatively on the credit profile of the university. Given the weak operating performance anticipated over the next 2 years, growth in total cash and investments will be limited to investment returns and fundraising efforts. Additionally, while we do not expect debt to materially increase over the next 2-3 years, as provincial funding for capital projects continues to increase at a pace that suits Concordia's growth plans, a risk persists that the university could lower its planned uses of liquidity (to protect liquidity in an uncertain environment) to fund capital and issue higher than expected debt. This could lead to weaker leverage metrics.

Owing to the weak EBIDA margin recorded by the university in 2020-21, Concordia's annual debt service coverage fell to 0.04x. However, even at its strongest level since 2013-14, annual debt service provided 0.53x coverage in 2017-18, and has averaged 0.22x over the period 2013-14 - 2020-21.

Our credit considerations partially look through this low coverage due to the presence of material provincial debt subsidies which are not taken into account in our coverage metric. The province of Québec provides debt service subsidies for 52.2% of Concordia's long-term debt (in 2020-21). Not requiring to service this debt also eases the concern on Concordia's low EBIDA margin, as the university does not need to generate strong operating outcomes to cover significant debt service. Another factor that we take into account is that the majority of debt that Concordia is responsible for is largely held in long-term, bullet bonds with an earliest maturity of 2039 which also decreases the risk of poor debt service coverage at present. Nonetheless, even taking all these factors into account, Concordia's debt service coverage is still considered to be weaker than similarly rated peers.

**Operating pressure to persist for duration of coronavirus pandemic and need to support strategic initiatives**

Concordia reacted to the onset of the coronavirus pandemic with important changes to both sides of the income statement. While the university was able to pivot its course delivery to online to ensure a continuation of studies for students, and remain flexible enough to transition as pandemic conditions permitted, ancillary services faced greater rigidity. Given ancillary services are typically funded through own-source revenue, the reduced activity led to reduced income and while costs were reduced, they could not fall completely in line with activity. This led to greater support to ancillary services from the university's other operations. This was in addition to cost pressure from operations due to increased health and safety measures.

Given this pressure, we believe that budget pressure will persist for the duration of the pandemic. Ongoing travel restrictions, which have proven to be quite unpredictable in nature, will likewise continue to lead to uncertainty for international enrolment which represents an important share of revenue for Concordia. Demand for ancillary services will also remain volatile as restrictions on capacity limits will reduce revenue generation.

To meet the initial pressures from the pandemic, Concordia implemented a number of measures to lower costs and actively managed admissions to mitigate any downward pressure from students failing to enrol after receiving acceptances. While successful across a short period, many of the cost measures are not suitable for long-term pressures. Additionally, Concordia reports a rising trend of students taking fewer courses each semester than in the past. The duration of the pandemic, and how Concordia addresses evolving pandemic pressure, may lead to sustained stresses on the non-pandemic factors that have led to budgetary imbalances in the past which will weigh negatively on EBIDA.

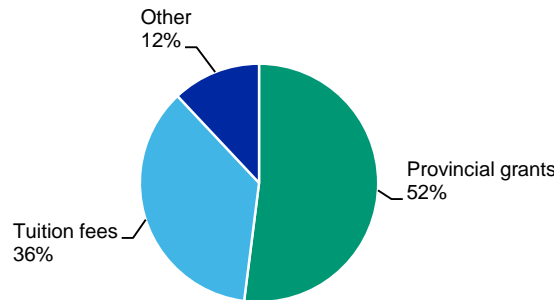
**Significant share of revenue tied to student levels**

Concordia faces a challenge given its high share of revenue from per-student sources, which exposes the university to a more direct impact from negative demographic trends, restrictive immigration policies such as experienced during the pandemic with international travel restrictions or unfavourable geopolitical factors, a mix of which we have observed in the recent past and currently.

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. Although provincial operating grants will be protected from pandemic-related impacts on enrolment, a challenge for Concordia will be to increase its share of revenue derived independently from enrolment levels to protect

against future enrolment volatility and/or less favourable provincial funding decisions. However, demographic pressures continue to be negative for the key incoming age co-hort of Concordia, and that is expected to continue for the next 2-3 years. Without diversification away from enrolment-based factors, 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.

Exhibit 3  
**Given their combined share of 88% of operating revenues, enrolment based revenue from provincial grants and tuition fees present concentration risk for Concordia**  
 Share of operating revenue 2021-22



Source: Moody's Investors Service

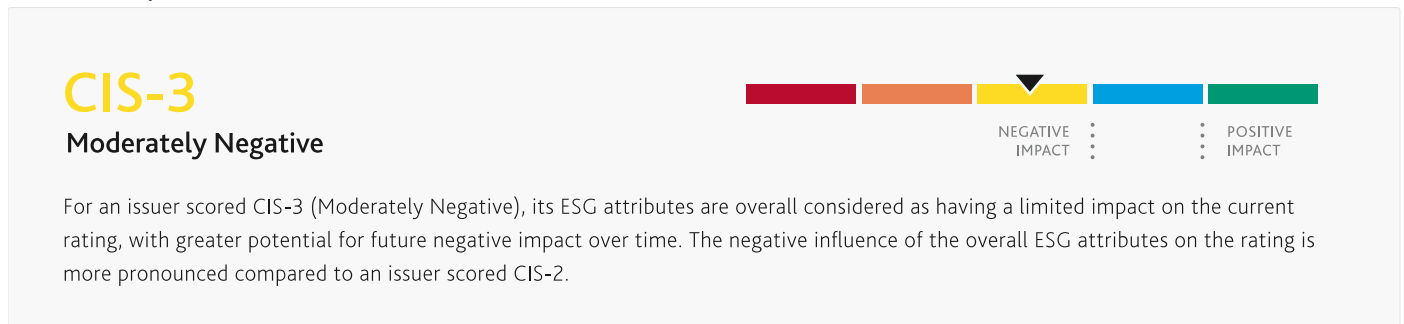
### Extraordinary support considerations

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

#### Concordia University, Quebec's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 4  
**ESG Credit Impact Score**

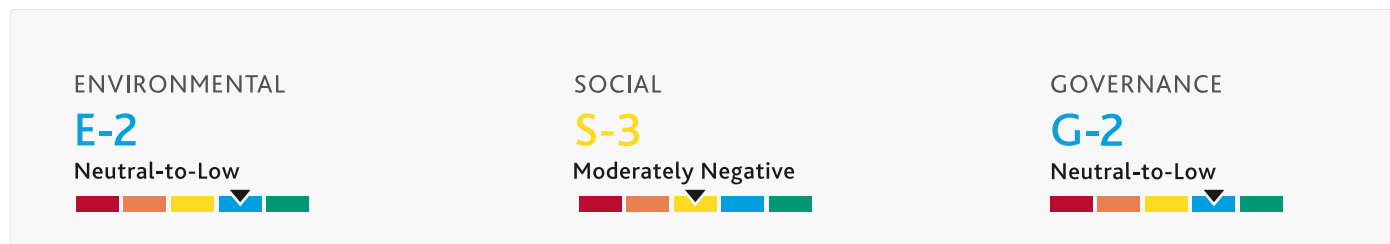


Source: Moody's Investors Service

Concordia's moderately negative (**CIS-3**) ESG Credit Impact Score reflects the mix of moderately negative social risk and neutral-to-low risk from both environmental and governance concerns.

Exhibit 5

## ESG Issuer Profile Scores



Source: Moody's Investors Service

### Environmental

The neutral-to-low E issuer profile score (**E-2**) reflects neutral-to-low scores across all environmental risk categories. Located in the urban area of the City of Montreal, Concordia is not subject to material environmental risks as its infrastructure is built to withstand both the cold winters of Montreal as well as the warm summers. Concordia has adopted sustainability as a core value in its strategic planning which ensures the university will be aligned with changing policy directives on environmental and sustainability factors.

### Social

The moderately negative risk S issuer profile score (**S-3**) reflects the mix of high risk stemming from demographic and societal trends offset by moderately negative or neutral-to-low risk for other social considerations. Concordia has an elevated reliance on revenue driven by students and faces weak demographic trends among the domestic population and increased competition, as well as geopolitical and economic risk, among international students. Provincial funding policies designed to address affordability, both on tuition setting and support to students, also present moderate risks to Concordia as does the structure of the workforce, including the average age and degree of unionization of staff, which reduces fiscal flexibility given the high share of total operating costs that stem from wages and benefits. The university faces neutral-to-low risk for health and safety and responsible production considerations.

### Governance

The G issuer profile score is neutral-to-low (**G-2**) which captures Concordia's positive risk from its excellent strategy and risk management as well as neutral-to-low risks from other governance factors. The university's organizational structure is typical for Canadian universities, allowing for ease of funding from the provincial government as well as funding allocations between the university's departments. The Board structure is quite robust with adequate oversight responsibilities. The management track record of the university is quite strong and utilizes multi-year forward looking plans to help address and mitigate potential issues before they arise.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

### Rating methodology

The assigned baseline credit assessment (BCA) of a2 is two notches below the scorecard indicated outcome of baa1. These two notches reflect the pandemic-related impacts on EBIDA margin and annual debt service coverage, which we consider to be temporary. For details of our rating approach, please refer to the [Higher Education](#) (August 2021) and [Government-Related Issuers](#) (February 2020) methodologies.

Exhibit 6

## Concordia University

Scorecard Factors and Sub-factors	Value	Score
<b>Factor 1: Scale (15%)</b>		
Adjusted Operating Revenue (USD Million)	445	A
<b>Factor 2: Market Profile (20%)</b>		
Brand and Strategic Positioning	A	A
Operating Environment	A	A
<b>Factor 3: Operating Performance (10%)</b>		
EBIDA Margin	0%	Ba
<b>Factor 4: Financial Resources and Liquidity (25%)</b>		
Total Cash and Investments (USD Million)	283	Aa
Total Cash and Investments to Operating Expenses	0.5	A
<b>Factor 5: Leverage and coverage (20%)</b>		
Total Cash and Investment to Total Adjusted Debt	0.4	A
Annual Debt Service Coverage	0.0	Ca
<b>Factor 6: Financial Policy and Strategy (10%)</b>		
Financial Policy and Strategy	Aa	Aa
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 7

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

Source: Moody's Investors Service



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