MOODY'S
INVESTORS SERVICE

Credit Opinion: Concordia University, Quebec

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Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	Aa2

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Key Indicators

Concordia University, Quebec **(Year Ending April 30)** [1]	2010	2011	2012	2013	2014
Total Enrolment (FTE)	26,026	26,876	27,322	27,846	27,907
Government Funding for Operations as a % of Revenue [2]	50.3	47.4	46.6	46.4	46.8
Net Tuition as a % of Revenue [2][3]	19.1	21.2	20.5	21.6	20.8
Interest Expense as a % of Revenue [2][4]	3.0	2.7	2.6	2.6	2.5
Funds From Operations as a % of Revenue [2]	5.9	12.5	12.0	6.8	11.1
Net Debt as a % of Revenue [2][5]	60.9	62.3	57.5	47.4	53.5
Net Cash and Investments-to-Net Debt (x) [5]	0.01	0.01	0.01	0.01	0.01

[1] Prior to 2010/11, year end is May 31. [2] Revenues net of provincial debt service subsidies. [3] Tuition revenues before scholarship expenses. [4] Interest net of provincial subsidies. [5] Includes short-term lines of credit.

Opinion

SUMMARY RATING RATIONALE

Concordia University's Aa2 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 as well as the flexibility demonstrated to date to adjust to near-term operating challenges arising from reduced provincial funding. 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. While Concordia carries a higher-than-average debt burden, its net debt has declined significantly in recent years as short-term credit lines were refinanced with subsidized debt from the province. The Aa2 rating also reflects the university's limited sources of internal liquidity, a high level of pension liabilities. This is somewhat offset by the close relationship with the Province of Québec, which provides the university with significant debt subsidies, and is likely to provide additional support should the university experience an acute liquidity situation.

National Peer Comparison

Concordia is rated at the higher end of the rating range for Canadian universities, which span a range of Aa1-A3. Concordia's debt burden, which was 53.5% of revenue as of April 30, 2014, is higher than average, although it has fallen from around 80% of revenues in 2004 and 2005. Its operating margin is weaker than many other Moody's-rated Canadian universities, due in part to the funding restrictions in place by the province of Quebec and lack of control over tuition. 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

The credit strengths of Concordia University include:

--Key niche in Quebec market as one of two major English language universities

--Growing student demand amid declining domestic demographics

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

Credit Challenges

The credit challenges of Concordia University include:

--Limited financial reserves under the university's direct control

--Budgetary pressure arising from reduced provincial funding

--Moderate debt burden expected to increase

Rating Outlook

The rating 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 the continuation of deficits could place downward pressure on the rating. A material increase in the debt burden, a decline in liquidity, or further escalations in pension liabilities could also apply 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.

DETAILED RATING CONSIDERATIONS

Concordia's rating combines (1) a baseline credit assessment (BCA) of a1 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

KEY NICHE IN QUEBEC MARKET AS ONE OF TWO MAJOR ENGLISH LANGUAGE UNIVERSTIES

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.

GROWING STUDENT DEMAND DESPITE DECLINING DOMESTIC DEMOGRAPHICS

The university's current enrolment measures about 28,000 full-time equivalent students (FTE), up from 24,400 in 2007/08, representing a 2.2% 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 grow its enrolment over the longer term. The university's strategy to increase its recruitment of international students has also helped to bolster enrolment and help offset relatively flat domestic tuition fees. Additionally, recruiting a greater number of graduate students has been aided by recent campus investments, such as the Centre for Structural and Functional Genomics, and should help support Concordia's goal to increase the proportion of graduate students from the current level of 12% of enrolment to 20%.

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. As these subsidies cover 100% of debt service payments, we do not include this debt as part of the university's debt burden.

Non-subsidized interest payments consumed 2.5% of revenue in 2013-14, 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.

LMITED FINANCIAL RESERVES UNDER THE UNIVERSITY'S DIRECT CONTROL

Concordia University has a limited level of financial resources under its direct control, which exposes it to potential operating volatility. The majority of Concordia's financial reserves are held in Concordia's associated foundation. Total cash and investments measured CAD158.6 million as of April 30, 2014. The bulk of these funds, however, are externally restricted. Net cash and investments totaled CAD2.4 million.

Furthermore, with the reduced funding from the province, Concordia has had to rely its line of credit to facilitate its monthly cash flow requirements. As of April 30, 2014, Concordia had drawn CAD42.9 million on its line of credit. Despite the low liquidity, Concordia has a sinking fund established to provide security to bondholders. As of April 30, 2014, the sinking fund had a value of CAD44 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 Quebec would provide necessary assistance if the university were to face an acute liquidity crisis.

BUDGETARY PRESSURES ARISING FROM REDUCED PROVINCIAL FUNDING

Quebec universities have been forced to react to changes to the financial arrangements with the province beginning in 2012. While universities first prepared their 2012-13 budgets under the assumption tuition would rise CAD325, this was later reduced to CAD250. Later in the year, following an election that saw a change in government, this increase was eliminated. In December 2012, the province announced that funding for universities would be reduced CAD 125 million for 2012-13. This was later extended to an additional cut of similar size for 2013-14. The late timing of these announcements, particularly for 2012-13 when only 4 months of the fiscal year were remaining, created pressure on the universities across the province. To help reassure universities that funding would be restored, the province announced that beginning in 2014-15, it would begin to reinvest CAD 1.7 billion in universities across five years.

Another election in 2014 saw another change in government. Facing continued provincial deficits, the reinvestment for 2014-15 was eliminated and the previous reductions in funding were extended. An additional reduction of CAD25 million was imposed in the fall of 2014, with additional reductions expected in 2015-16.

The timing and nature of these announcements has had a negative impact on the planning of the universities. Quebec universities have had to face numerous adjustments to budgets and look for efficiencies mid-year to meet the provincial requirements. Concordia posted consolidated deficits in both 2012-13 and 2013-14, of CAD44.2 million and CAD18.7 million respectively.

In its initial 2014-15 Budget, which was prepared before the latest round of funding cuts were announced, Concordia was facing an operating deficit of CAD2.8 million, which would put conditional provincial grants at risk after the province tied those to achieving a balanced outcome. Additional cuts and reduced funding announced throughout the year added to Concordia's challenge of achieving a balanced budget, raising the possible deficit to CAD15.7 million. Concordia intended to achieve a balanced budget through the introduction of a voluntary departure program which would help cut down on salaries and wages. Although this would increase the expenses of the university, through higher severance packages, the province recognized that such temporary costs would be offset through lower permanent expenses, which was the goal of the funding reduction exercise. As such, severance costs associated with the voluntary departure program would not count towards Concordia's fiscal outcome for the purposes of the funding grants. We will continue to monitor the funding treatment of Quebec universities and consider the ongoing impact to the creditworthiness of Concordia.

MODERATE DEBT BURDEN EXPECTED TO INCREASE

As previously mentioned, over half of the university's debt is guaranteed by the province of Quebec 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. As of April 30, 2014, Concordia's net direct debt totaled CAD287.9 million.

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. After reducing its debt burden to 47.4% of adjusted revenues at April 30, 2013 from 75.5% five years prior, Concordia has begun to see its debt burden increase again, reaching 53.5% of adjusted revenues at April 30, 2014. The previous decline mainly reflected the reduction on the university's line of credit. Excluding this temporary source of financing, Concordia's debt burden has been relatively stable in recent years prior to the recent increase.

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. 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.

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. It is our view that this new, clearer policy with well defined parameters is a credit positive and will provide useful guidance for the university's debt management over the medium term.

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.

ABOUT MOODY'S SUB-SOVEREIGN RATINGS

National and Global Scale Ratings

Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale ratings, please refer to Moody's Rating Implementation Guidance published in October 2012 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings."

The Moody's Global Scale rating for issuers and issues allows investors to compare the issuer's/issue's creditworthiness to all others in the world, rather than merely in one country. It incorporates all risks relating to that country, including the potential volatility of the national economy.

Baseline Credit Assessment

Baseline credit assessments (BCAs) are opinions of entity's standalone intrinsic strength, absent any extraordinary support from a government. Contractual relationships and any expected ongoing annual subsidies from the government are incorporated in BCAs and, therefore, are considered intrinsic to an issuer's standalone financial strength.

BCAs are expressed on a lower-case alpha-numeric scale that corresponds to the alpha-numeric ratings of the global long-term rating scale.

Extraordinary Support

Extraordinary support is defined as action taken by a supporting government to prevent a default by a Government Related Issuer (GRI) and could take different forms, ranging from a formal guarantee to direct cash infusions to facilitating negotiations with lenders to enhance access to needed financing. Extraordinary support is described as either low (0 - 30%), moderate (31 - 50%), strong (51 -70%), high (71 - 90%) and very high (91 - 100%).

Default Dependence

Default dependence reflects the likelihood that the credit profiles of two obligors may be imperfectly correlated. Such imperfect correlation, if present, has important diversifying effects which can change the joint-default outcome. Intuitively, if two obligors' default risks are imperfectly correlated, the risk that they would simultaneously default is smaller than the risk of either defaulting on its own.

In the application of joint-default analysis to GRIs, default dependence reflects the tendency of the GRI and the supporting government to be jointly susceptible to adverse circumstances leading to defaults. Since the capacity of the government to provide extraordinary support and prevent a default by a GRI is conditional on the solvency of both entities, the more highly dependent -- or correlated -- the two obligors' credit profiles, the lower the benefits achieved from joint support. In most cases GRIs demonstrate moderate to very high degrees of default dependence with their supporting governments, which reflects the existence of institutional linkages and shared exposure to economic conditions that draw credit profiles together. Default dependence is described as either low (30%), moderate (50%), high (70%) and very high (90%).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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