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CREDIT OPINION
20 February 2018

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 (Canada)

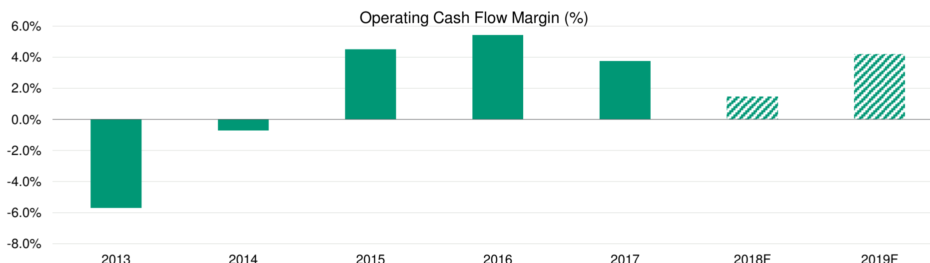
Update to credit analysis

Summary

The credit profile for Concordia University (Aa3 stable) reflects the university's strong institutional management and market profile which has helped the university navigate recent funding pressures, it's low and affordable interest burden and adequate level of total wealth. These positives are balanced by the challenging funding framework in the province of Québec that puts pressure on revenue growth, low levels of own source liquidity relative to peers and our expectation that the university's debt burden will increase to finance a portion of it's capital plan. 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

Operating cash flow margins will remain stable despite one time pension expenses in 2018



Source: Moody's Investors Service, Concordia University Financial Statements

Credit strengths

» Strong institutional management and market profile

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

» Adequate level of total wealth

Credit challenges

» Challenging operating environment puts pressure on revenues

» Weak levels of own source liquidity

» Capital requirements expected to drive increase in debt

Rating outlook

The outlook is stable. This reflects our forecast that cash flow will improve over the medium term as the university continues to make efforts to return to balance.

Factors that could lead to an upgrade

Although an upgrade is unlikely in view of the stable rating outlook, a sustained material improvement to operating cash flow generation as a result of positive budgetary balances would put upward pressure on the rating.

Factors that could lead to a downgrade

A material deterioration in cash flow generation, resulting from a longer than forecasted period of budgetary deficits could put downward pressure on the rating. Additionally, a material increase in debt beyond forecasted levels could put downward pressure on the rating.

Key indicators

Exhibit 2
Concordia University
Year ending April 30

	2013	2014	2015	2016	2017
Operating Revenues (CAD, Thousands) [1]	479,537	506,508	509,563	503,474	534,518
Annual Change in Operating Revenue (%)	2.0	5.6	0.6	-1.2	6.2
Operating Cash Flow Margin (%)	-5.7	-0.7	4.5	5.4	3.8
Total Cash & Investments (CAD, Thousands)	143,195	158,978	171,214	173,362	200,108
Spendable Cash & Investments to Operating Expenses (x)	0.13	0.16	0.17	0.18	0.21
Total Debt to Cash Flow (x)	-21.6	-174.9	27.6	24.3	33.4

[1] Net of scholarship expenses
Source: Moody's Investors Service, Concordia University's Financial Statements

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.

Strong institutional management and market profile

Concordia university's commitment to long term planning and strong institutional management has helped it limit the impact of provincial funding cuts over the past several years. Mid year cuts to provincial funding has put pressure on cash flow generation over the past several years. However, the university undertook several initiatives to realign spending both in the short and long term. While several of these initiatives, such as the voluntary retirement program, incurred additional onetime costs that put downward pressure on cash flow during an already challenging fiscal period, they will support stronger operating margins and by extension cash flow generation over the medium and long term. We expect operating and cash flow margins to again be weak in 2017/18, mainly as a result of onetime expense from cost saving initiatives, before seeing material improvement over the medium term as a direct result of the university's efforts to improve its cost structure.

Despite a reduction in the amount of university aged students in the province of Québec forecast for the next several years, Concordia's unique blend of program offerings supports enrollment growth and its strong market profile over the medium term. Concordia is one of only two major English language universities in the francophone province of Québec, a unique market niche which bolsters its market

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position. The university's programming attracts non-traditional students such mature students attracted to professional training rather than traditional curriculum, which reduces some of the exposure to the current demographic cycle in the province. This focus on nontraditional students, in addition to a push for increased graduate and international enrollment, should ensure that the university continues to meet its revenue targets over the medium term.

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

Concordia's total debt measured CAD670.9 million as of April 31, 2017, of which CAD344.2 million is supported by provincial debt service subsidies under Québec's grant bond program. These bonds are issued to support approved capital expenditures, and the debt service associated with the bonds is fully supported through provincial debt subsidies. While we include all of the University's debt in the calculation of total debt, the substantial provincial subsidies reduce the fiscal burden of the University's total debt, bringing it in line with peers with much smaller debt burdens.

The university's remaining debts are comprised of CAD221.7 million in long term debt, and CAD105 million of short-term bank lines drawn from unsecured and uncommitted lines of credit. These lines are used to finance operations in advance of provincial operating transfers, a portion of which are typically delayed until after year end.

Non-subsidized interest payments consumed 2.2% of adjusted operating revenue in 2016/17, an improvement of the 2.7% level recorded in 2012/13. Concordia's interest expense is considered manageable and does not constrain fiscal flexibility unduly. Furthermore, even with the potential for increased debt this measure should remain at manageable levels for the medium-term. The low interest payments ensure Concordia's ability to fulfill its obligations to debt holders.

Adequate level of total wealth

Concordia maintains a solid level of total wealth, the majority of which is held by the Concordia University Foundation. The university's total cash and investments, including both those held by the university itself and those under the management of the Foundation, reached CAD199 million as of April 30, 2017 compared to CAD173 million in 2016. The increase was mostly driven by strong returns (slightly over 14%) on the investments held by the university's foundation. Spendable cash and investments covered 0.21x operating expenses in 2017, up from 0.13x in 2013, highlighting the growth in the level of wealth that the university holds.

The growth of the university's overall wealth over the past several years supports it's commitment to long term planning and strategic investment. The increase in total wealth, and by extension spendable cash an investments, enables the university to continue making strategic investments despite the challenging provincial funding environment over the past several years.

Challenging operating environment puts pressure on revenues

Concordia's ability to grow revenues and improve operating margins are challenged by the current provincial funding framework, which includes both caps on domestic tuition increases and claw backs of international student tuition. Starting in 2012, the province installed successive cuts to operating grants, which often resulted in the university receiving final funding confirmations late in the fiscal year, and at levels below the universities' initial budgets. As a result, the university posted negative operating margins for the past 5 years, with operating deficits averaging roughly 10.6% of Moody's adjusted operating revenues over that time.

With the improved fiscal health of the provincial government, mid year funding cuts no longer appear likely, which should help ease some of the burden on the university. The province has begun making small reinvestments in higher education as of the 2017/18 fiscal year, and it has announced that it will introduce changes to the tuitition framework for the 2018/19 fiscal year. While these changes are expected to ease some of the pressure facing the university, the provincial reinvestments will not fully replace the transfers that were cut over the past several years and the ultimate impact of changes to provincial tuition framework remains unknown. As a result, we expect that Concordia's revenue growth will remain below that of comparable Canadian peers over the medium term.

Weak levels of own source liquidity

Despite the adequate levels of total wealth, Concordia records low levels of liquidity compared to national peers. Out of the almost CAD200 million held between the university and it's foundation, approximately only CAD66 million of this would be available to the university in the event of acute liquidity stress. While this amount is low on a relative basis compared to other Canadian peers, this is primarily driven by the current fiscal framework for higher education in Québec which limits the ability for universities to build unrestricted cash reserves. While the low liquidity remains a weakness 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, mitigating some of the own source risks.

In the place of strong own source liquidity, Concordia relies on it's line of credit to facilitate its monthly cash flow requirements. As of April 30, 2017, Concordia had drawn CAD105 million on its line of credit, considerably higher than the CAD42.9 million that was drawn as of 2014. The line of credit is primarily used to smooth out cash flow in anticipation of operation transfers from the provincial government, a portion of which are typically delayed until after the fiscal year end. While the university's low level of own-source liquidity remains credit negative, 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.

A portion of Concordia's accessible liquidity is held as a sinking fund that was established by the university. While the use of these funds is not explicitly restricted, the use of a segregated fund that was established for debt repayment provides security to bondholders nonetheless. As of April 30, 2017, the amount set aside in the sinking fund had a value of CAD57.5 million, equivalent to roughly 26% of Concordia's non-subsidized long term debt.

Capital requirements expected to drive increase in debt

Concordia's current capital plan forecasts approximately CAD340 million in capital funding between 2017/18 and 2019/20. While the university does allocate annual funding to its capital fund and Québec provides subsidies for capital investment, the current levels are not sufficient to complete the entire capital plan. To fulfill the capital plan, we anticipate external financing would be required, which may put upward pressure on the university's debt metrics.

Within the context of past deficits and negative cash flow, the university's ratio of total debt to cash flow is very poor. At April 30, 2017 the university's ratio of total debt to cash flow measured 33.4 times, however over half of this debt is serviced by the provincial government. After adjusting for debt serviced by the provincial government, the university's debt to cash still remains among the weakest of rated Canadian universities, driven mostly by poor cash flow generation in recent years. While the forecast improvements to cash flow over the medium term should ease the debt burden, this will likely be moderated by our expectation that the university will acquire debt over this same period. Additionally, 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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