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CREDIT OPINION
11 February 2022

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Villanova University, PA

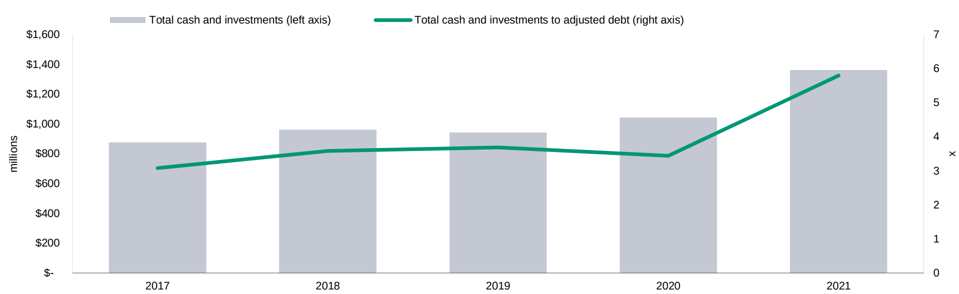
Update following upgrade to Aa3

Summary

Villanova University's (Aa3 stable) credit quality is supported by its excellent brand and strategic positioning, consistently strong operating performance and manageable financial leverage. A strong academic reputation as a selective private university with an appealing location, diverse programs and attractive facilities supports ongoing favorable student demand. Disciplined financial management contributes to EBIDA margins consistently above 16%, which provide for strong debt affordability from operations. A mix of investment returns, philanthropy and retained cash flow drove a 55% increase in wealth over the last five years to a sizeable $1.4 billion for fiscal 2021. A detailed capital planning framework has supported consistent investment in campus infrastructure while maintaining manageable debt relative to wealth, scale and operations. Since fiscal 2017, total cash and investments' coverage of total adjusted debt strengthened to 5.8x from 3x, while the age of plant improved to 12 years from 16 years. Credit challenges include elevate competition and weak regional demographics, modest coverage of wealth relative to expenses, and limited revenue diversity.

On February 11, 2022, Moody's upgraded Villanova's ratings to Aa3 from A1 and revised its outlook to stable from positive.

Exhibit 1
Outsized wealth gains drove stronger financial reserve coverage of adjusted debt



Source: Moody's Investors Service

Credit strengths

» Excellent brand and strategic positioning as a selective private university with strong student demand, good enrollment diversity and solid philanthropy

» Substantial wealth at nearly $1.4 billion providing strong 5.8x coverage of total adjusted debt

- Excellent financial strategy and policy contributing to consistently favorable operating performance, ample resources for reinvestment and a relatively low age of plant at 12 years
- Sound liquidity providing for 361 monthly days cash on hand and 581 annual days cash on hand

Credit challenges

- Elevated competition from an elite group of competitors and weak regional demographics, adding enrollment management headwinds
- Modest coverage of wealth relative to operations compared to peer competitors, with total cash and investments to expenses at 2.9x
- Limited revenue diversity as reflected by a high 80% reliance on net tuition and auxiliary revenue

Rating outlook

The stable outlook reflects Moody's expectations of continued strong student demand, operating performance, and liquidity. It also reflects expectations that wealth gains will be in-line with peer competitors, driving stronger coverage of expenses.

Factors that could lead to an upgrade

- Outsized growth in wealth and liquidity relative to peers, providing for materially stronger coverage of debt and expenses
- Substantial improvement in revenue diversity, while sustaining strong operating performance and debt service coverage

Factors that could lead to a downgrade

- Erosion in brand and strategic positioning, reflected by weakening student demand, pricing flexibility, and philanthropy
- Sustained narrowing in operating performance or debt affordability from operations

Key indicators

Exhibit 2

VILLANOVA UNIVERSITY, PA

	2017	2018	2019	2020	2021	Median: Aa Rated Private Universities
Total FTE Enrollment	9,458	9,498	9,472	9,573	9,511	2,996
Operating Revenue ($000)	444,957	475,098	493,740	497,163	502,740	264,101
Annual Change in Operating Revenue (%)	4.4	6.8	3.9	0.7	1.1	1.3
Total Cash & Investments ($000)	875,326	960,718	942,501	1,042,976	1,361,230	1,515,427
Total Debt ($000)	268,878	258,000	246,539	294,378	218,893	313,773
Total Cash & Investments to Total Adjusted Debt (x)	3.1	3.6	3.7	3.4	5.8	4.5
Total Cash & Investments to Operating Expenses (x)	2.2	2.3	2.1	2.3	2.9	4.9
Monthly Days Cash on Hand (x)	437	419	447	384	361	435
EBIDA Margin (%)	17.7	17.0	16.7	16.3	17.3	15.6
Total Debt to EBIDA (x)	3.4	3.2	3.0	3.6	2.5	6.3
Annual Debt Service Coverage (x)	4.9	4.7	5.3	3.9	3.7	3.5

Source: Moody's Investors Service

Profile

Villanova University was founded in 1842 by the Augustinian Order of the Roman Catholic Church and is located 14 miles west of downtown Philadelphia in the affluent suburb of Radnor Township. The university offers a broad mix of undergraduate, graduate, and professional programs. It had fall 2021 full-time equivalent enrollment of 9,511 and a fiscal 2021 revenue base of $503 million.

Detailed credit considerations

Market profile: strong student demand as a selective private university outside of Philadelphia

An excellent brand and strategic positioning will continue to drive strong student demand and ongoing pricing flexibility. A high 80% reliance on net student revenue is partly mitigated by good enrollment and program diversification for the 9,511 full-time equivalent students for fall 2021. About 27% of students are enrolled at the graduate or professional level. A continued execution of various market strengthening initiatives that are accretive to the brand increase the likelihood of achieving institutional enrollment objectives. While capacity limitations constrain undergraduate growth prospects, the university has identified online education, certificate programs and partnerships as channels for incremental enrollment gains on an aggregate basis.

Effective enrollment management and program and capital strategy have contributed to a trend of strengthening student demand. Since fall 2014, the admit rate for first year applicants declined from 49% to just 25% for fall 2021, while the yield rate increased from 22% to 29%. Further, the university's ability to maintain a stable undergraduate discount rate around 30% and sustainably grow net revenue per student demonstrates good pricing flexibility. Net tuition per student increased to $34,685 for fiscal 2021 from $31,207 for fiscal 2017. Despite competitive headwinds, the university is poised to achieve net tuition revenue growth above 3% sustainably.

Villanova's very good operating environment is primarily driven by the federal policy environment. Federal funding for various financial aid programs supports student access and affordability. Bolstering research activity is a key priority of the strategic plan and could potentially attract additional government funding over time. The university has invested in new faculty, facilities and administration infrastructure to grow research. For fiscal 2021, total research expenses amounted to $10 million, or 2% of total expenses. The university is not subject to undue expense flexibility limitations and has manageable fixed costs due to its modest debt burden.

Operating performance: consistently strong operating performance indicative of excellent financial strategy

Disciplined financial management and steady revenue growth will contribute to maintenance of a strong operating performance. Over the last five years, EBIDA margins averaged 17%, which provided for nominal cash flow net of debt service of between $60-$68 million annually. Operating results for fiscal 2022 are trending to be in line with the 17.3% EBIDA margin for fiscal 2021, which will support debt service coverage above 3.5x.

Close alignment of net student revenue and expenses per student will support ongoing operating stability. For fiscal 2022, spending associated with a reinstated 3% merit pay increase and new strategic plan will be offset by cost containment measures in other areas and the recognition of the third round of federal relief. Further, a sizeable and growing $503 million revenue base provides for efficiencies of scale, which also aids expense management initiatives.

Wealth and liquidity: sizeable nominal wealth, but limited coverage of expenses relative to peer competitors

A mix of philanthropy, investment returns, and retained surpluses will continue to drive a favorable pace of wealth accumulation over time. Despite extensive capital spending, total cash and investments increased an outsized 55% over the last five years to nearly $1.4 billion for fiscal 2021. While nominal wealth remains substantial, total cash and investments' coverage of expenses at 2.9x is considerably more limited relative to peer medians.

Strong stewardship of the long-term investment pool continues to be a key driver of financial reserve growth. Both the fiscal 2021 investment return of 38% (or 42.5% for fiscal ending June 30) and the ten-year annualized return of 8.9% (or 9.4% for fiscal ending June 30) exceeded many peer competitors. Investments are diversified and managed by an in-house investment office at the direction of the Board of Trustees' investment committee.

Philanthropy remains another credit strength, with three-year average gift revenue of $57 million. While unrestricted gifts only account for 4% of revenue, donor support will aid investments associated with the capital program and strategic plan. The most recently campaign concluded in 2018 and raised about $759 million.

Liquidity

Carefully managed liquidity will continue provide ample flexibility to respond to any unforeseen financial challenges. Unrestricted monthly liquidity of $420 million covered a solid 361 days of expenses. Unrestricted liquidity available within a year provides an even stronger 581 days cash on hand. Surplus financial operations and an all fixed-rate debt structure limit potential liquidity risks. Unfunded private capital commitments, while growing, remain manageable at $146 million. Supplemental liquidity is provided by two lines of credit totaling $60 million, which have no outstanding balance.

Leverage: modest debt burden but a favorable age of plant at 12 years

Debt levels will remain low relative to scale, wealth and cash flow. Outsized fiscal 2021 investment returns drove a significant strengthening of total cash and investments' coverage of total adjusted debt to nearly 6x for fiscal 2021 from 3x for fiscal 2017. Further, debt to EBIDA at just 2.5x is indicative of very good budget discipline strong debt affordability from operations.

Rapid principal amortization will drive debt levels significantly lower over the next four years. While there are no additional debt plans, the university reports cash-funded capital spending of up to $75 million over the near-term. Proceeds will be used to fund a portion of the costs to expand the college of engineering facilities to further enhance an existing program strength and build institutional capacity for interdisciplinary research. Even with this expected spend down, reserve growth trends remain favorable.

Legal security

All bonds are on parity and secured by a lien on the university's unrestricted revenues. The bonds are subject to covenants requiring maintenance of 1x debt service coverage and maximum annual debt service (MADS) at or below 12% of unrestricted revenue. The university will continue to comfortably meet each requirement, with 2.92x debt service coverage and MADS at 5% of unrestricted revenue for fiscal 2021 (as calculated under the covenant language).

Debt structure

A conservative, all fixed-rate debt structure provides for predictable fixed costs to include in budgets. The university will retire about 29% of its outstanding bonded debt between fiscal 2022 and 2025. During this period, annual debt service payments remain around $25 million before stepping down considerably and eventually leveling off at about $9 million through the fiscal 2046 final maturity.

Debt-related derivatives

There are no debt-related derivatives.

Pensions and OPEB

Exposure to retiree benefit obligations will remain manageable. The majority of employees participate in a defined contribution retirement plan, which carries minimal credit risk. A small subset of non-academic, full-time employees participate in a defined benefit pension plan, which has been closed to new employees since fiscal ending 1996. A separate university action closed froze all defined benefit accruals for active employees at the end of 2016. For fiscal 2021, combined university contributions towards both plan types accounted for about 3% of total expenses.

Similarly, exposure to postretirement health benefit obligations is not a material credit risk. Certain eligible employees that retired prior to May 31, 2018, are entitled to medical benefits. For fiscal 2021, the liability associated with these retiree medical benefit obligations was a modest $9 million.

ESG considerations

Environmental

Environmental considerations are not a material credit driver at this time. A comprehensive sustainability plan includes strategies to help mitigate the university's exposure to climate risks such as hurricanes and water stress. Goals set forth in the plan included a calculated baseline score, which allows the university to measure its progress to remain accountable. For example, the plan established a goal of achieving carbon neutrality by 2050 as well as interim goals of cutting emissions by 24% from a baseline by 2025. Actionable measures to conserve water, reduce waste, and transition energy generation align with stakeholder values and provide opportunities for budget savings.

Social

The demographic risks associated with Villanova's location in the greater Philadelphia region are largely mitigated by its strong brand. About two-thirds of students are from the Mid-Atlantic states, which comprise a highly competitive region with flat to declining numbers of high school graduates. Favorably, excellent student demand for the university's diverse mix of undergraduate, graduate and professional programs provides significant insulation from the competitive headwinds added by these demographic trends.

A strong 91% six-year graduation rate for the most recent undergraduate student cohort underscores the academic strength of Villanova's students and is a responsible production indicator under Moody's ESG framework.

Governance

An excellent financial strategy and policy is underpinned by strong financial discipline, detailed capital planning, and effective enterprise risk management. Annual budgets are prepared and adjusted accordingly to maintain a minimum of a 4% operating margin as calculated by the university. This practice contributes to a consistently strong operating performance and ample resources for reinvestment in facilities, programs, and other strategically important initiatives.

A strong capital strategy and planning framework is reflected by a marked improvement in the age of plant over the last five years, with the age of plant improving to 12 years from over 16 years. The university achieved this extensive capital investment while decreasing outstanding debt and substantially improving financial leverage and debt to revenue.

Rating methodology and scorecard factors

The principal methodology used in this rating was Higher Education Methodology published in August 2021. The Higher Education Methodology includes a scorecard that summarizes the factors that are generally most important to higher education credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard indicated outcome may or may not match an assigned rating. We assess brand and strategic positioning, financial policy and strategy, and operating environment on a qualitative basis.

Exhibit 3

Villanova University

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	503	Aa
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	Aa	Aa
	Operating Environment	A	A
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	17%	A
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	1,361	Aa
	Total Cash and Investments to Operating Expenses	2.9	A
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investment to Total Adjusted Debt	5.8	Aa
	Annual Debt Service Coverage	3.7	A
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	Aa	Aa
	Scorecard-Indicated Outcome		Aa3
	Assigned Rating		Aa3

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

REPORT NUMBER 1317433

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