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# Villanova University, PA

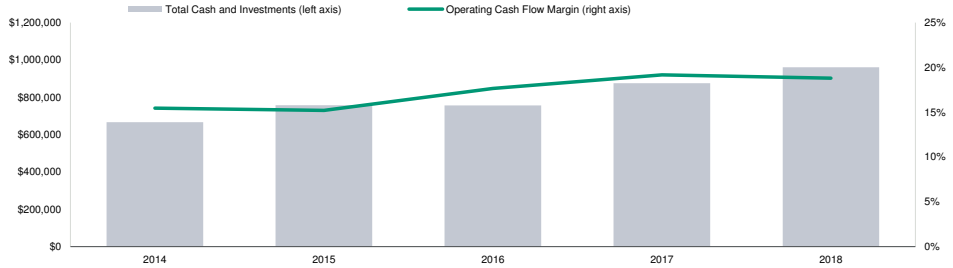
## Update following revision of outlook to positive

## Summary


Villanova University's (A1 positive) very good credit quality is derived from its ongoing strong financial performance, growing wealth, and positive student market momentum. The university has increased total cash and investments substantially over the last five years, which provided resources for strategic investments in programs and fixed assets in addition to outsized growth of financial reserves. This growth was anchored by sizeable philanthropic support, which continues to be a key credit strength. Leveraging successes in various initiatives, Villanova continues to strengthen its brand. Finally, university operations are well-managed, evidenced by consistently favorable cash flow margins providing strong debt service coverage. Effective oversight of each of the university's key priorities will continue to result in positive financial and student market outcomes.

Offsetting credit factors include limited revenue diversity, reflected by a 77% dependence on net student revenues. Favorably, the university's good programmatic mix and strong demand partially mitigate this challenge. While financial reserves provide a solid cushion relative to debt and operations at the A1 rating, this coverage is modest when compared to Aa3-rated institutions.


Exhibit 1
**Strong growth in absolute wealth driven by excess cash flow and fundraising**




*Source: Moody's Investors Service*

## Credit strengths

» Highly regarded reputation as a selective, national Catholic private university support enrollment stability and additional pricing flexibility

» Strong financial management providing consistently favorable operating performance and excellent debt affordability

» Sizeable and growing absolute wealth anchored by substantial philanthropic support

» Excellent strategic positioning with close integration of financial, market, and capital objectives

» Ample unrestricted liquidity with modest potential liquidity risks given an entirely fixed rate debt structure

## Credit challenges

» Limited revenue diversity, with a high 77% dependence on net student revenues

» Highly competitive market landscape with direct competition from both public and private universities

» Modest cushion of financial reserves relative to debt and operations when compared to Aa3-rated private universities

## Rating outlook

The positive outlook reflects our expectations of financial reserve accumulation above similarly rated peers and strengthening coverage of debt and operating expenses. It also acknowledges our expectations of successful completion of existing capital projects.

## Factors that could lead to an upgrade

» Continued increase in financial reserves relative to debt and operating expenses

» Ongoing strengthening in student market leading to favorable net tuition revenue growth and maintenance of strong cash flow margins

## Factors that could lead to a downgrade

» Significant reduction in monthly liquidity relative to operating expenses

» Sustained deterioration in operating performance or student demand

## Key indicators

Exhibit 2

**VILLANOVA UNIVERSITY, PA**

| | 2014 | 2015 | 2016 | 2017 | 2018 | Median: A Rated Private Universities |
|---|---|---|---|---|---|---|
| Total FTE Enrollment | 9,677 | 9,827 | 9,942 | 10,126 | 10,181 | 4,604 |
| Operating Revenue ($000) | 411,622 | 415,985 | 433,353 | 453,297 | 485,730 | 185,094 |
| Annual Change in Operating Revenue (%) | 2.6 | 1.1 | 4.2 | 4.6 | 7.2 | 2.6 |
| Total Cash & Investments ($000) | 665,976 | 757,219 | 755,826 | 875,326 | 960,718 | 382,221 |
| Total Debt ($000) | 165,521 | 151,848 | 282,970 | 268,878 | 258,000 | 144,757 |
| Spendable Cash & Investments to Total Debt (x) | 2.9 | 3.5 | 1.8 | 2.2 | 2.4 | 1.8 |
| Spendable Cash & Investments to Operating Expenses (x) | 1.3 | 1.4 | 1.3 | 1.5 | 1.4 | 1.4 |
| Monthly Days Cash on Hand | 384 | 405 | 386 | 437 | 419 | 355 |
| Operating Cash Flow Margin (%) | 15.5 | 15.2 | 17.7 | 19.2 | 18.8 | 14.1 |
| Total Debt to Cash Flow (x) | 2.6 | 2.4 | 3.7 | 3.1 | 2.8 | 4.9 |
| Annual Debt Service Coverage (x) | 3.9 | 4.1 | 4.6 | 5.4 | 5.4 | 2.7 |

*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 had fall 2018 full-time equivalent enrollment of 10,181 and fiscal 2018 operating revenues of $486 million.

## Detailed credit considerations

Positive momentum on multiple fronts will continue to translate into enrollment success and strong fundraising. Leveraging its strengthening brand, Villanova has executed a strategy of gradually increasing enrollment while improving student quality and selectivity. The university admitted just 29% of freshman applicants in fall 2018, which is down from 49% in fall 2014. Additionally, the university recorded a 96% freshman-to-sophomore retention rate in fall 2018, indicating an ability to attract well-matched students of high academic caliber. These favorable trends, along with stable enrollment and ongoing pricing flexibility, will continue to support favorable net tuition revenue growth. This is critical because net student revenues account for about 77% of total operating revenue.

Villanova has capitalized on a number of recent successes to strengthen its competitive position. Among these successes, the university recently concluded a comprehensive campaign, raising over $760 million, which is well above its original $600 million goal. Additionally, recent completion of transformational capital projects and additions of market driven programs make the university well-positioned to achieve its enrollment and net tuition revenue goals. These investments are important in a highly competitive market landscape, with notable competition among public and private universities, many of which have significant financial aid budgets. Success in NCAA athletics, with two recent men's basketball national championships, further builds upon the university's market profile and international visibility.

### Operating performance: consistently favorable operating performance indicative of sound financial management

Maintenance of strong operating margins will continue to be driven by conservative budgeting strategies and revenue growth above 3%. To generate consistent surplus operations, Villanova budgets to maintain a minimum of 4% operating margins, as calculated by the university. During the last five years, Moody's adjusted average cash flow margin was 17%, which includes a strong 18.8% margin in fiscal 2018. Moving forward, the university's disciplined approach to financial management will result in maintenance of operations and debt service coverage above 4x.

### Wealth and liquidity: sizeable and growing absolute wealth bolstered by ample fundraising

Villanova will continue to accumulate wealth at levels in line with or above similarly rated peers. This growth will be anchored by strong fundraising, close endowment stewardship, and continued steady excess cash flow generation. At the A1 rating, absolute wealth is substantial, with fiscal 2018 total cash and investments amounting to $961 million, which represents a 44% increase from fiscal 2014. Spendable cash and investments provide a solid 1.5x cushion relative to operating expenses.

Investments are managed by an in-house investment office at the direction of the Board of Trustees' investment committee. Assets are weighted towards equities and alternatives, which represent about one-half and one-third of endowment assets, respectively. This composition is not materially different from similarly sized endowments. At May 31, 2018, the university's reported return on endowment was 9.6%.

Philanthropic support will remain a key credit strength. Bolstered by its capital campaign success, three-year average gifts per student of $8,707 was more than double the A-rated private university median of $4,171.

#### Liquidity

Liquidity will remain a credit strength for the university. In fiscal 2018, monthly liquidity equated to $460 million, which provides a solid 419 monthly days cash on hand. With all fixed rate debt and surplus operations, liquidity risks are modest.

### Leverage: manageable debt burden relative to financial reserves and operations

Debt will remain manageable relative to financial reserves and operations. In fiscal 2018, spendable cash and investments cushioned debt 2.5x, which is comparable to A1-rated peer medians. Management reports no additional near-term borrowing, which, along with continued steady wealth accumulation, will improve the university's leverage profile. Debt affordability, as measured by 2.8x debt to cash flow, is strong, which further underscores the university's solid operations.

**Debt structure**

Villanova's conservative debt structure does not add any undue credit risk. All debt is fixed rate, which provides predictable annual costs to incorporate into financial plans. Debt amortization is relatively aggressive, with about 57% of outstanding principal paid off over the next decade.

**Debt-related derivatives**

There are no debt-related derivatives.

**Pensions and OPEB**

Exposure to postretirement benefit obligations are modest and will continue to lessen due to recently enacted reforms. In fiscal 2018, the combined pension and other post-employment benefit (OPEB) obligation was $14 million, which represents just 3% of total liabilities. The defined benefit pension plan was closed to new employees at the end of fiscal 1996, and the university froze all benefit accruals for active employees effective at the end of fiscal 2016. The majority of employees now participate in a defined contribution plan. In fiscal 2018, combined university contributions towards retirement plans and OPEB accounted for a modest 3% of total expenses.

### Governance and management: planning-focused management team intent on maintaining strong competitive position

Villanova's planning-focused executive leadership team underpins its excellent strategic positioning. Financial stewardship is strong, reflected by consistently favorable operating performance and growing financial reserves. Annual budgets are crafted to generate surplus operations by incorporating conservative revenue and expense assumptions. Regular investments in fixed assets help ensure the university maintains its strong competitive positioning, while preventing a build-up of deferred maintenance. To accomplish its capital priorities, the university leverages multiple funding strategies, including fundraising, capital markets, and internal reserves. Finally, ongoing investments in programs, research, and other student centered initiatives will continue to strengthen its student market.

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