MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
17 December 2019

RATING

Seniormost Rating [1]	
A1	Positive

Analyst Contacts

Christopher Collins +1.212.553.7124
AVP-Analyst
christopher.collins2@moodys.com

Susan I Fitzgerald +1.212.553.6832
Associate Managing Director
susan.fitzgerald@moodys.com

Jeffrey Kaufmann +1.212.553.4628
VP-Sr Credit Officer
jeffrey.kaufmann@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Villanova University, PA

Annual comment on Villanova

Issuer profile

Villanova University (A1 positive) is a comprehensive private university founded in 1842 by the Augustinian Order of the Roman Catholic Church. It is located 14 miles west of downtown Philadelphia in the affluent suburb of Radnor Township. The university had fall 2019 full-time equivalent enrollment of 9,472 and fiscal 2019 operating revenues of $494 million.

Credit overview

Villanova University's credit strengths include a highly regarded national reputation as a selective private university with very good wealth and liquidity, consistently favorable operations, attractive facilities, and strong philanthropic support. Offsetting challenges include a high dependence on net student revenue and a very competitive market landscape. While wealth levels are strong for the sector, they are moderate compared to some other national recognized peers with which the university competes.

Exhibit 1
Villanova University, PA [2]

	2015	2016	2017	2018	2019	Median: A rated private universities
Total FTE Enrollment	9,236	9,329	9,458	9,498	9,472	4,989
Operating Revenue ($000)	410,462	426,330	444,957	475,098	493,740	220,945
Annual Change in Operating Revenue (%)	-0.3	3.9	4.4	6.8	3.9	2.8
Total Cash and Investments ($000)	757,344	755,826	875,326	960,718	942,501	410,424
Total Debt ($000)	151,848	282,970	268,878	258,000	246,539	152,534
Spendable Cash and Investments to Total Debt (x)	3.5	1.8	2.2	2.5	2.5	2.1
Spendable Cash and Investments to Operating Expenses (x)	1.4	1.3	1.5	1.5	1.4	1.4
Monthly Days Cash on Hand	405	386	437	419	447	383
Operating Cash Flow Margin (%)	14.1	16.3	17.7	17.0	16.7	14.0
Total Debt to Cash Flow (x)	2.6	4.1	3.4	3.2	3.0	5.3
Annual Debt Service Coverage (x)	3.7	4.2	4.9	4.7	5.3	2.8

Source: Moody's Investors Service

Market profile: Ongoing strong student demand will continue to be supported by Villanova's highly regarded academic reputation, favorable location, and regular investments in initiatives that enhance the student experience. It has good enrollment diversification across programs, degree type, and geography, which provides insulation against cyclical shifts. Effective enrollment management and continued brand strengthening afford additional pricing flexibility and will provide for steady growth in net student revenue.

» Excellent strategic positioning is supported by its strong student demand, prudent management, and excellent fundraising.

» A sizeable and growing scope of operations at $494 million in fiscal 2019 affords significant flexibility to respond to slowing revenue growth.

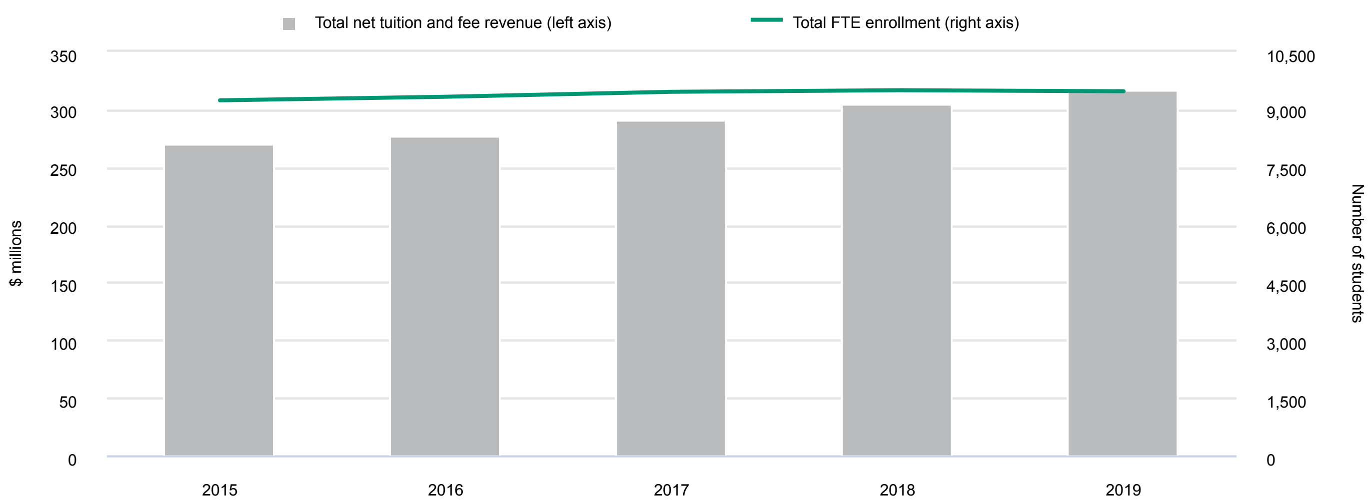
» Annual growth in operating revenue was 3.9% in fiscal 2019, which is on par with the A-rated median.

» The university is selective, illustrated by its admit rate of just 28% of first-year applicants in fall 2019.

» An ability to attract academically strong and well-matched students is reflected by a 96% freshman-to-sophomore retention rate.

Exhibit 2

Steady growth in net student revenue and enrollment highlight strong student demand



Source: Moody's Investors Service

Operating performance: Effective financial management and sustained revenue growth above 3% will support ongoing favorable operating performance. Reflective of conservative budgeting practices, Villanova's internal financial plans are crafted to maintain a minimum operating margin of 4%, as calculated by the university. Through close fiscal oversight, the university's operating cash flow margin will remain above 15%, providing resources to support reinvestment as well as growth in financial reserves.

» Consistently strong operations are illustrated by its 16% average operating cash flow margin from fiscal 2015 to fiscal 2019.

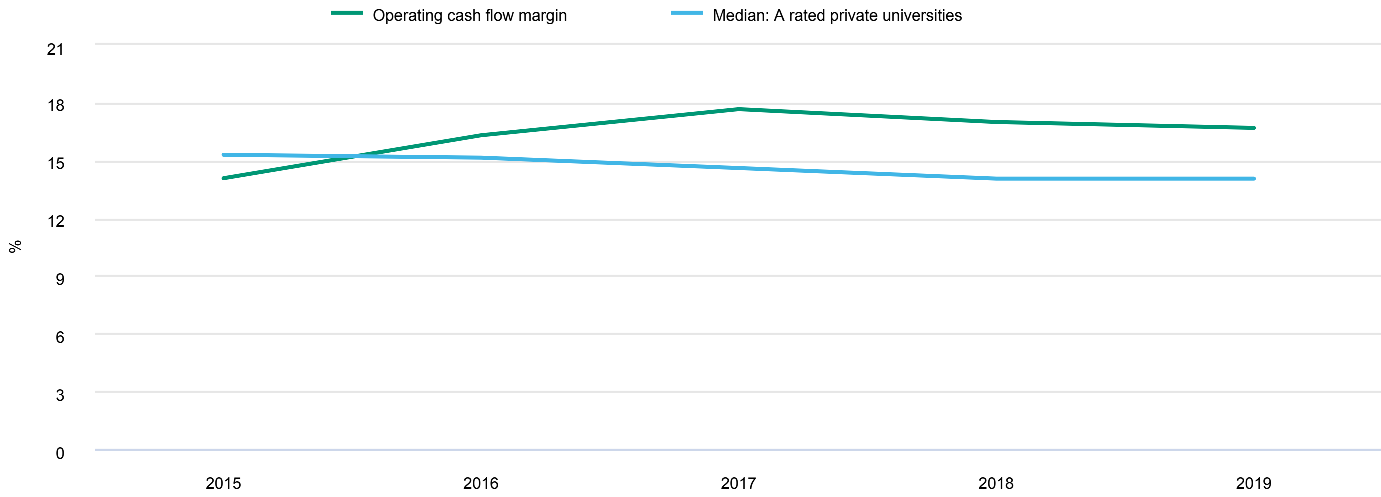
» Annual debt service coverage of 5.3x in fiscal 2019 demonstrates the university's very strong ability to cover debt service from operations.

» The gap between net tuition per student ($33,387) and educational expenses per student ($39,211) is narrow compared to peers, demonstrating efficient operations.

» About 79% of revenue derives from student charges, highlighting significant concentration.

Exhibit 3

Consistently strong operating performance reflective of conservative financial management



Source: Moody's Investors Service

Wealth and liquidity: Accumulation of wealth and liquidity will continue to be supported by strong fundraising, healthy excess cash flow, and investment returns. After an annual decline in total cash and investments in fiscal 2019, due to a spend down of about $100 million of reserves on capital projects, growth will resume in fiscal 2020 at levels comparable to similarly rated peers. At May 31, 2019 (fiscal year end), the university recorded an investment return of 3.9%.

» Wealth is substantial, with total cash and investments of $943 million in fiscal 2019, which is 24% higher compared to fiscal 2015.

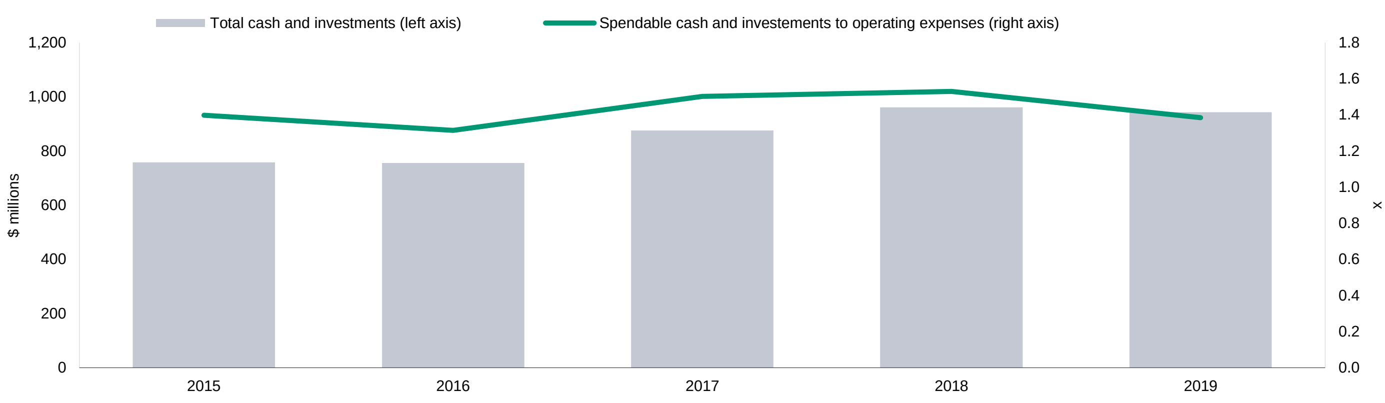
» A solid operating reserve is illustrated by spendable cash and investments to operating expenses of 1.4x in fiscal 2019, which is on par with the A-rated median.

» Liquidity is favorable and growing, with monthly days cash on hand of 447 days in fiscal 2019.

» Very good fundraising is reflected by three-year average gifts per student of $8,469, which is more than double the A-rated median, but less than the Aa-rated median.

Exhibit 4

Sizeable and growing wealth with good future prospects for additional accumulation of reserves



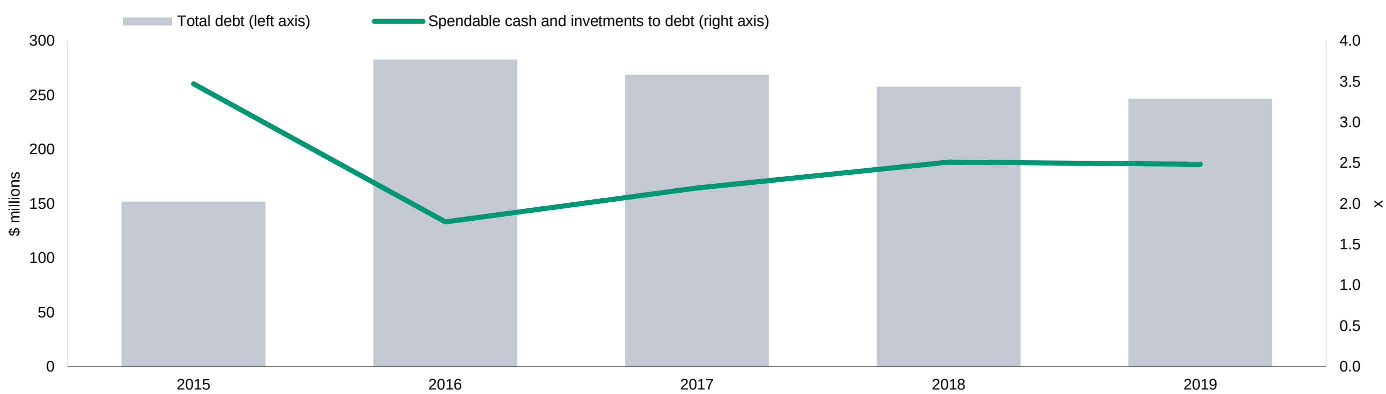
Source: Moody's Investors Service

Leverage: Villanova will maintain manageable financial leverage and very strong debt affordability. Its debt structure is relatively conservative, with regular principal pay down and entirely fixed rate. While the university has additional capital needs over the longer term, it reports no new debt plans over at least the next two years. As a result, coverage of spendable cash and investments to debt is likely to incrementally strengthen.

- Coverage of spendable cash and investments to total debt was 2.5x in fiscal 2019, which is above the A-rated median of 2.1x.
- Excellent debt affordability is illustrated by debt to cash flow of just 3.0x in fiscal 2019, which is favorable to the A-rated median of 5.3x.
- Between fiscal 2015 and fiscal 2019, Villanova's capital spending ratio averaged 3.9x, reflecting significant investment in campus infrastructure.
- Villanova's total debt has increased by 62% to $247 million in fiscal 2019 compared with $152 million in fiscal 2015.
- Total adjusted debt of $256 million in fiscal 2019 compared to total debt of $247 million reflects a limited pension obligation or presence of other debt like instruments.

Exhibit 5

Manageable financial leverage even as debt has increased



Source: Moody's Investors Service

Sector trends

We have a stable outlook for the US higher education sector through 2020. The stable outlook acknowledges that while business conditions will remain difficult for a notable portion of the sector in the next 12-18 months, they will not deteriorate materially. Relative stability in state funding, endowment income, and patient care revenue at academic medical centers will help offset continued low growth in net tuition revenue. Comprehensive universities, both public and private, and wealthy, national liberal arts college will continue to fare well over the outlook period, supported by strong brands and reputations, diversified enrollment and business lines, and healthy reserves. Universities with comparatively low wealth and a higher concentration on tuition revenue will face more difficulties.

Endnotes

1 The rating referenced in this report is the college's or university's seniormost public rating.

2 Definitions of the metrics in the Key Indicators table are available in the appendices of our most recently published Higher Education medians reports, public university and private university. The appendices also provide additional metrics broken out by sector and rating category. We use data from a variety of sources to calculate the medians, some of which have differing reporting schedules. Median data for prior years published in this report may not match last year's publication because of data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals. Median data represents the most recent published median data, which in some cases could be from the prior fiscal year.

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