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CREDIT OPINION
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Villanova University, PA

Update to credit analysis

Summary

Villanova University's (Aa3 stable) credit quality will continue to be supported by its excellent brand and strategic positioning, significant financial resources and liquidity, and sound financial management. Its strong academic reputation as a selective private university with an appealing location, diverse programs, and updated facilities will continue to support favorable student demand. Disciplined financial management and steady revenue growth will help sustain solid operating results and good debt affordability, even as the university absorbs a material increase in debt and the temporary carrying costs associated with the newly acquired Cabrini campus. The combination of philanthropy, investment returns, and retained cash flow will support a continued upward trend in the university's already substantial total cash and investments. Further, the university's detailed capital planning framework will continue to provide for consistent capital investment to maintain its healthy age of plant. Credit challenges include elevated competition and weak regional demographics, modest coverage of financial reserves relative to operating expenses, and limited revenue diversity. Further, the new bond issuance more than doubles the university's outstanding debt, limiting future debt capacity at the rating level.

Credit strengths

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

» Substantial total cash and investments of nearly $1.4 billion providing for strong coverage of total adjusted debt at 6.8x

» Strong financial management contributing to consistently favorable operating performance, ample resources for reinvestment and a relatively low age of plant at 12 years

» Sound liquidity translates to 289 monthly days cash on hand and 451 annual days cash on hand, particularly given an absence of material liquidity risks

Credit challenges

» Material increase in financial leverage, owing to a near doubling of pro forma debt to $419 million, limiting future debt capacity

» 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 covering operating expenses by 2.5x

» Limited revenue diversity as reflected by a high 77% reliance on net tuition and auxiliary revenue

Rating outlook

The stable outlook reflects Moody's expectations of continued strong student demand, steady operating performance, and sound liquidity. It also reflects expectations of maintenance of about 3x debt service coverage and a gradual reduction in total debt outstanding following absorption of the Series 2024 bonds.

Factors that could lead to an upgrade

» Significantly stronger coverage of total cash and investments relative to total adjusted debt and operating expenses, currently at a respective 3.3x (pro forma) and 2.5x

» Substantial growth in nominal financial reserves and operating revenue in conjunction with materially stronger operating performance

Factors that could lead to a downgrade

» Inability to gradually reduce debt levels relative to the $419 million of pro forma debt upon issuance of the Series 2024 bonds

» Sustained downturn in operating performance, leading to a move below 3x debt service coverage

» Erosion in brand and strategic positioning, reflected by weakening in student demand, pricing power, and philanthropy

Key indicators

Exhibit 1
VILLANOVA UNIVERSITY, PA

	2019	2020	2021	2022	2023	2023 pro forma	Median: Aa Rated Private Universities
Total FTE Enrollment	9,472	9,573	9,511	9,273	9,253	9,253	3,198
Operating Revenue ($000)	493,740	497,099	502,615	552,870	585,237	585,237	302,852
Annual Change in Operating Revenue (%)	3.9	0.7	1.1	10.0	5.9	5.9	14.9
Total Cash & Investments ($000)	938,639	1,039,345	1,356,783	1,437,615	1,376,574	1,376,574	2,151,779
Total Adjusted Debt ($000)	255,861	303,163	234,969	219,381	202,766	419,336	456,395
Total Cash & Investments to Total Adjusted Debt (x)	3.7	3.4	5.8	6.6	6.8	3.3	4.7
Total Cash & Investments to Operating Expenses (x)	2.1	2.3	2.9	2.8	2.5	2.5	5.3
Monthly Days Cash on Hand (x)	447	384	362	400	289	289	478
EBIDA Margin (%)	16.7	16.3	17.5	16.6	12.5	12.5	18.0
Total Debt to EBIDA (x)	3.0	3.6	2.5	2.4	2.8	5.7	4.8
Annual Debt Service Coverage (x)	5.3	3.9	3.7	4.0	3.3	3.3	4.2

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 served 9,253 full-time equivalent students in fall 2023 and generated total operating revenue of $585 million in fiscal 2023.

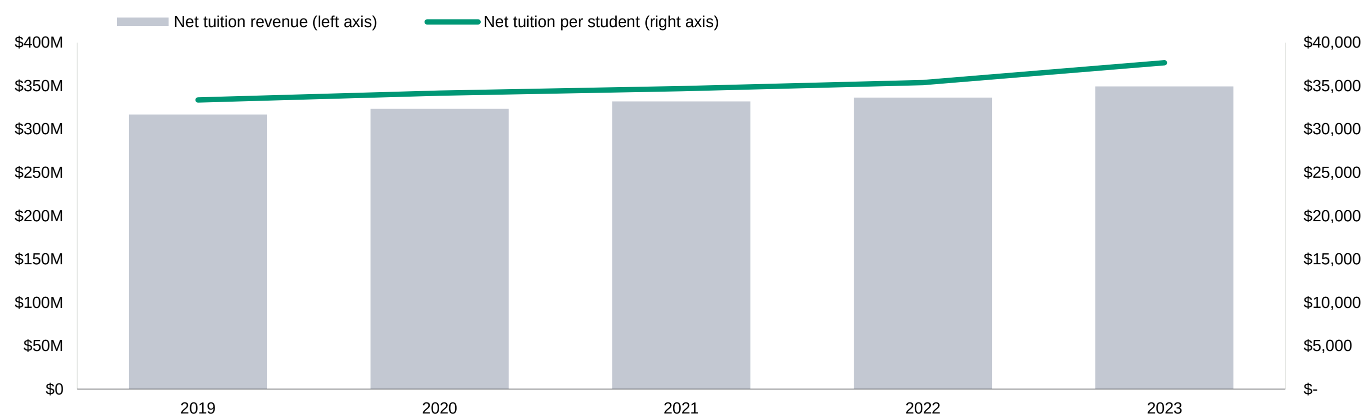
Detailed credit considerations

Market profile

Strong student demand will continue to support Villanova's excellent brand and strategic positioning. Despite elevated market competition, the university continues to meet enrollment targets and demonstrate pricing power. Net tuition per student increased by 13% over the last five years to about $38,000 in fiscal 2023. While the university is highly reliant on net student revenue, at 77% of total operating revenue, its good enrollment diversification helps mitigate this concentration. About one-third of its students are graduate or professional degree seeking. Total enrollment was flat in fall 2023 at 9,253 full-time equivalent students, but net tuition revenue is forecast to increase by 3.5% in fiscal 2024. The continued execution of various market strengthening initiatives that are accretive to the brand increase the likelihood of achieving longer-term institutional enrollment objectives. The acquisition of the campus of nearby Cabrini University provides significant opportunity to expand enrollment and academic programs over time.

Exhibit 2

Favorable student demand supports good pricing power and steady net tuition revenue growth



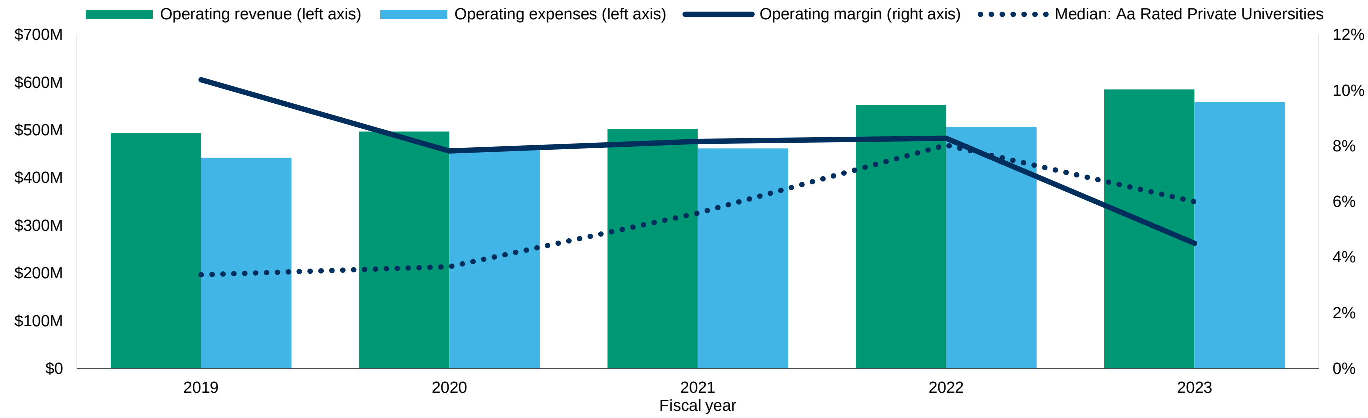
Source: Moody's Investors Service

Operating performance

Disciplined financial management will contribute to the maintenance of solid operating results. However, the university's margins narrowed in fiscal 2023 relative to historical levels as expenses grew by 10% compared to revenue growth at 6%. The combination of inflationary pressures and investments as part of the strategic plan contributed to the higher than typical expense growth. Even with this increase, the university's EBIDA margin was still solid at 12.5% in fiscal 2023, supporting debt service coverage at 3.3x. With closer alignment of revenue and expense growth, the university's financial forecast signals that the fiscal 2024 operating margins will be in line with fiscal 2023 results. EBIDA margins are likely to remain relatively stable in the low double-digits over the next two years, even as the university absorbs carrying costs of the Cabrini campus before it becomes operational. Management reports that the university will begin to enroll students at the Cabrini campus in fiscal 2027, which will provide for material enrollment and revenue upside thereafter.

Exhibit 3

Strong financial management provides for consistently sound operating results



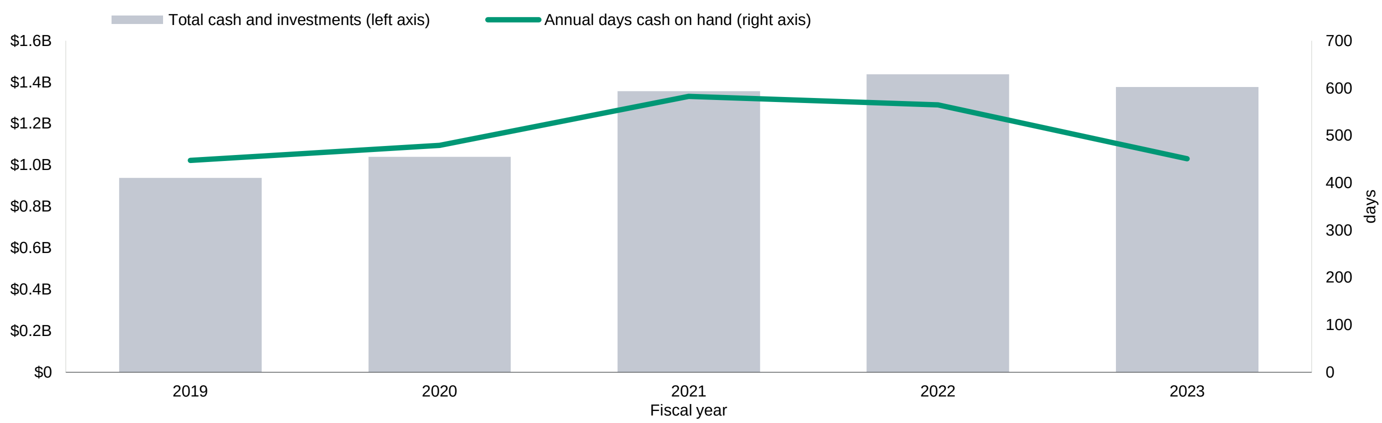
Source: Moody's Investors Service

Financial resources and liquidity

The combination of philanthropy, investment returns, and retained surpluses will continue to support steady financial reserve growth. Despite elevated capital spending, total cash and investments increased by a substantial 47% over the last five years to just under $1.4 billion in fiscal 2023. While the university has increased exposure to alternative assets within the endowment, unrestricted liquidity continues to be favorable. Monthly and annual days cash on hand stood at a respective 289 days and 451 days in fiscal 2023. However, coverage of total cash and investments relative to operating expenses at 2.5x remains well below peer medians. Favorably, strong stewardship of the long-term endowment is reflected in consistently favorable investment performance. The five- and ten-year endowment returns at a respective 10.3% and 9.0% exceeded policy benchmarks and many peers. Philanthropy represents another credit strength, with three-year average gift revenue topping $88 million in fiscal 2023. The university will add about $80 million in net assets to its balance sheet once the Cabrini acquisition is completed.

Exhibit 4

Substantial financial resources and good liquidity support credit quality

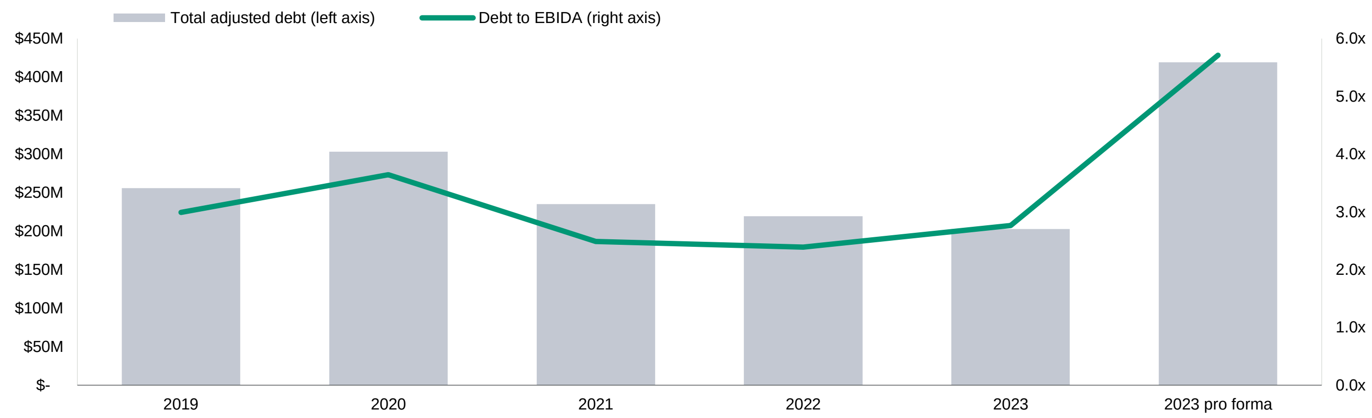


Source: Moody's Investors Service

Leverage and coverage

While the new bond issuance more than doubles total adjusted debt, financial leverage will remain manageable. However, even with regular debt pay down, the university has no material additional debt capacity at the rating level absent meaningfully stronger financial operations and financial resource growth. Total cash and investments covered pro forma total adjusted debt by 3.3x, while total pro forma adjusted debt to operating revenue was 0.7x. Similarly, pro forma debt to EBIDA rises to 5.7x, which is moderately higher than peer medians. Debt structure risks are low as all bonds are fixed rate with relatively level annual debt service payments and steady principal amortization. With no pension exposure, the university's debt consists mainly of revenue bonds. Consistent capital spending above depreciation provides for an age of plant at below 13 years, which is well below peer medians. The new money par totaling $217 million will be used to finance the costs associated with the new library, the purchase of the Cabrini campus, and other capital related projects.

Exhibit 5
New bond issuance materially increases leverage, but debt affordability remains manageable

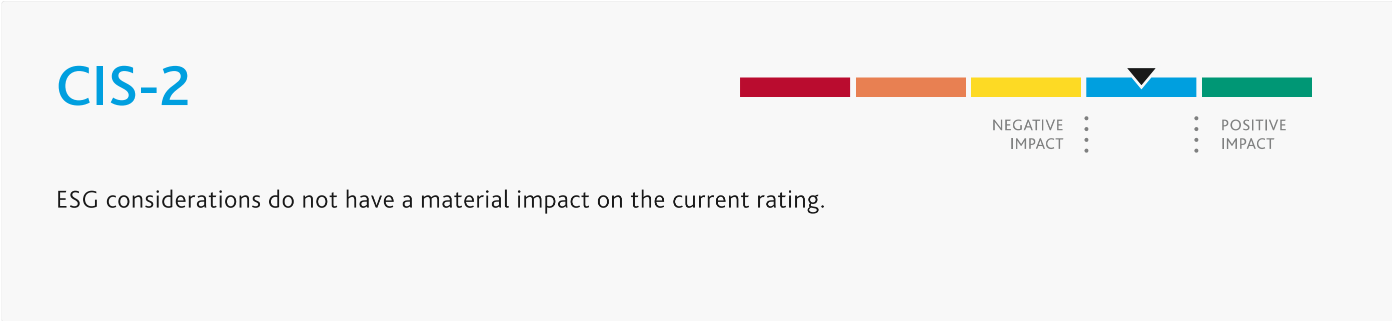


Source: Moody's Investors Service

ESG considerations

Villanova University, PA's ESG credit impact score is CIS-2

Exhibit 6
ESG credit impact score

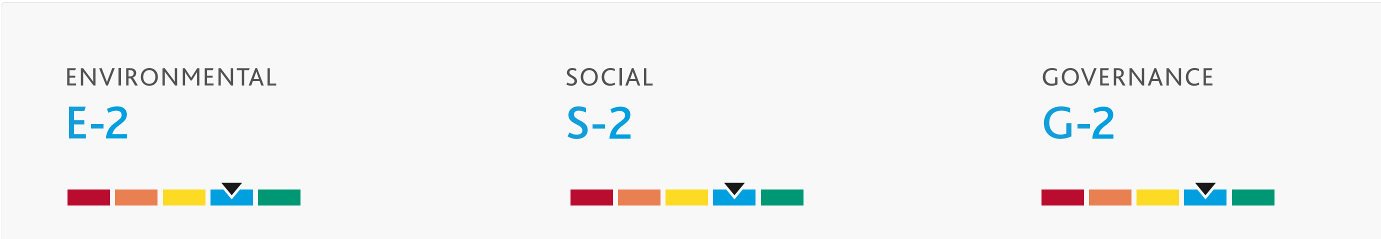


Source: Moody's Investors Service

Villanova University's **CIS-2** incorporates its significant brand strength, strong institutional leadership, and ample wealth and liquidity, which help mitigate the exposure to ESG risks.

Exhibit 7

ESG issuer profile scores



Source: Moody's Investors Service

Environmental

The **E-2** incorporates the moderate exposure to environmental risks that include tropical storms, water stress, and heat stress. The implementation of various climate resiliency strategies limit the likelihood of material operational disruption or budgetary impact. The university's ten-year sustainability plan includes actionable measures to conserve water, reduce waste, and transition energy generation as part of a goal of achieving carbon neutrality by 2050. The individual goals set forth in the plan include baseline scores that help ensure accountability and measure progress.

Social

The university's **S-2** incorporates its strong national reputation and favorable student demand. Its brand strength, good program diversity, and sound enrollment management practices will continue to mitigate the demographic risks introduced by the elevated reliance on students from the Mid-Atlantic and northeast markets. While the university is largely dependent on net student revenue, its excellent graduation rates, sound donor support and strong postgraduate earnings relative to student debt largely offset the exposure to customer relations risks. Like many sector peers, human capital risks are derived from the high faculty tenure exposure, which provides for labor rigidity. Favorably, the university's demonstrated ability to consistently exercise pricing power and grow net student revenue limits the impact of human capital challenges.

Governance

The university's **G-2** reflects its track record of favorable operating results and robust wealth accumulation. Disciplined budgeting practices will continue to provide for strong cash flow to support strategic reinvestment and financial reserve growth. The successful execution of various brand strengthening initiatives, including large scale capital investment, demonstrates good management credibility. The strong wealth gains, manageable leverage profile, and relatively low age of plant signals sound financial strategy. Like most of the sector, the large composition of the board including alumni and key donors introduces some board structure risk. Favorably, the board members have good industry diversity and experience along with a demonstrated ability of effectively fulfilling their broad oversight responsibilities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The Higher Education rating 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, operating environment, and financial strategy on a qualitative basis, as described in the methodology.

Exhibit 8

Pro forma fiscal 2023 scorecard

Villanova University

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	585	Aa
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	Aa	Aa
	Operating Environment	A	A
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	13%	A
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	1,377	Aa
	Total Cash and Investments to Operating Expenses	2.5	A
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	3.3	A
	Annual Debt Service Coverage	3.3	A
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	Aa	Aa
	Scorecard-Indicated Outcome		A1
	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.

Scorecard incorporates the pro forma $217 million of new Series 2024 debt

Source: Moody's Investors Service

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