

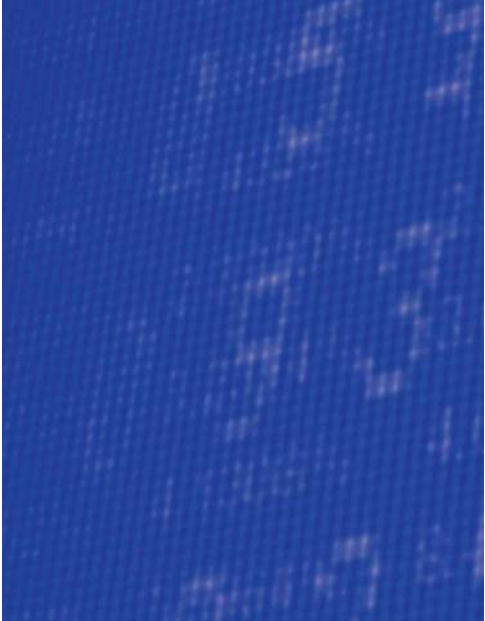


The Financial & Strategic Outlook for Private Colleges

January 5, 2015

Agenda

1. **Moody's Higher Education Ratings**
2. **Methodology**
3. **2015 Outlook for Higher Education**
4. **Rating Activity**
5. **Q&A**



Moody's Higher Education Ratings & 2015 Outlook

Moody's Rates Universities Around the World

- » Team of 30 credit analysts bring sector and regional expertise to ratings
- » Majority of ratings in the US, reflecting long history of accessing capital markets
- » Growing interest in accessing the capital markets outside of the US

- >520 public & private four-year universities
- >200 two-year colleges
- 100 not-for-profit organizations
- 40 private K-12 schools

United States



- 10 public universities
- Ratings from Aa1-A3

Canada



- 4 public universities
- 1 not-for-profit organization
- Ratings from Aaa-Aa2

England



- 3 public universities
- Ratings from Aa1-Aa2

Australia



- 2 public universities
- Both rated Aaa

Singapore



- 1 public university
- Rated Baa3

Mexico



- 1 public university based on a guaranty by a regional government

Spain

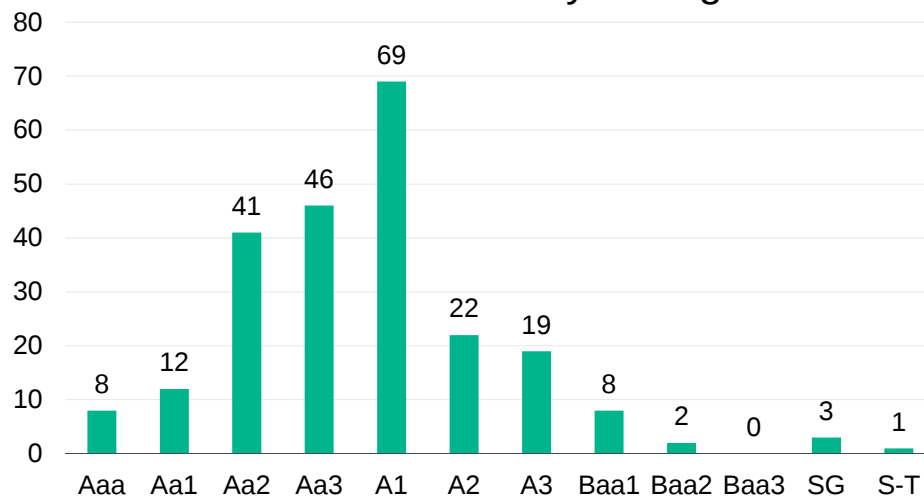


Moody's Rates Over 500 Universities in the US

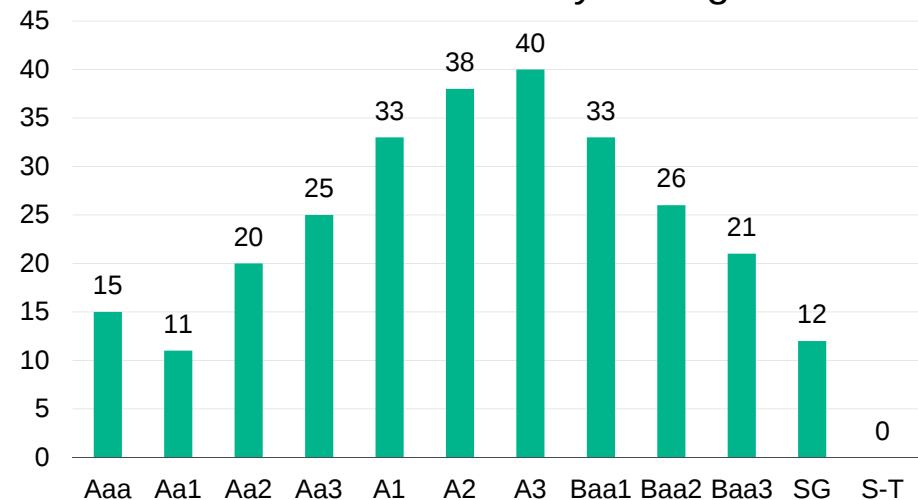
Includes vast majority of sector debt

- » Over 230 four-year public universities
 - » Almost \$125 billion total rated debt outstanding
 - » Median rating of A1 by number of institutions
 - » Median rating of Aa1 weighted by rated debt
- » Nearly 275 private colleges and universities
 - » Over \$85 billion of rated debt outstanding
 - » Median rating of A3 by number of institutions
 - » Median rating of Aa2 weighted by rated debt

US Public University Ratings



US Private University Ratings



Source: Moody's, ratings as of December 29, 2014. S-T represents those with only a short-term rating

Methodology

RATING METHODOLOGY U.S. Not-for-Profit Private and Public Higher Education

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Summary

This rating methodology explains Moody's approach to assessing credit risk for U.S. public and not-for-profit private colleges and universities. It provides a reference tool that can be used when evaluating credit profiles for U.S. higher education institutions, helping investors, colleges and universities, and other interested market participants understand how key quantitative and qualitative characteristics affect rating outcomes. The report provides a detailed guide to the main analytical factors and ratios that drive ratings in this sector, although it does not include an exhaustive discussion of every ratio or sub-factor that might be relevant when evaluating an individual organization's unique credit attributes. Related sectors not covered in this report include community colleges,¹ universities outside of the United States,² and for-profit education providers.³

Highlights of this report include:

- » The combination of public and private higher education into a single methodology
- » The introduction of a scorecard with a weighted quantitative grid and notching for qualitative factors

This rating methodology combines and replaces *Moody's Rating Approach for Private Colleges and Universities* published in September 2002 and *Rating Methodology for Public Colleges and Universities* published in November 2006. The consolidated methodology reflects the common broad rating factors for these sectors as well as the continued evolution of public universities into market-driven organizations increasingly dependent on the same competitive strategies as private university peers. While reflecting the same core principles as the methodologies published in 2002 and 2006, this updated framework incorporates refinements that better reflect the current key credit fundamentals of the higher education industry.

THIS CREDIT RATING METHODOLOGY CONTAINS AN UPDATE IN THE RELATED RESEARCH AT THE END OF THE REPORT. THE CONTENT OF THE CREDIT RATING METHODOLOGY HAS NOT BEEN CHANGED OR UPDATED. ORIGINAL DATE OF PUBLICATION REMAINS THE EFFECTIVE DATE OF THE CREDIT RATING METHODOLOGY.

¹ *Moody's Approach for Evaluating Community Colleges*, December 1999 (31626)

² *Methodologies for Rating Public Universities*, August 2007 (103430)

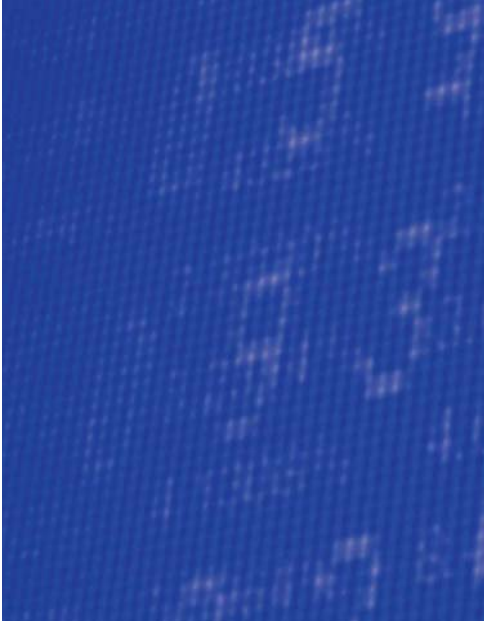
³ *Global Business and Consumer Services Industry Rating Methodology*, October 2010 (127182)

Multiple Factors Considered In Assessing Credit Quality



Governance & Management Even Greater Distinguishers





2015 Outlook for Higher Education

Outlook for US Higher Ed is Negative

Outlook Horizon: 12-18 months

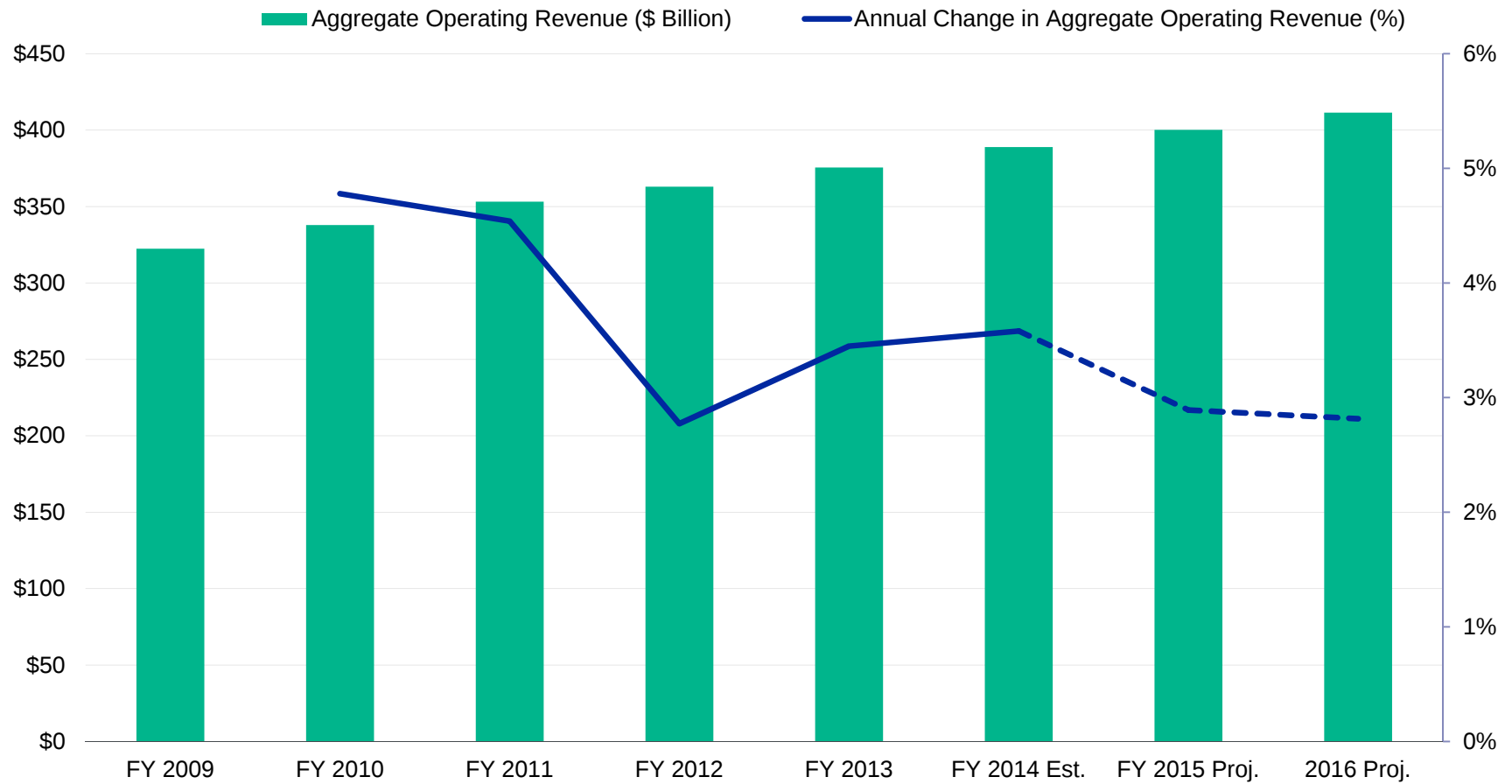
Key Drivers

- » Operating revenue growth slowing to below 3%, coupled with mounting expenses
- » Price sensitivity constrains net tuition revenue growth
- » State government funding growing, but remains below pre-recession levels; strings attached
- » Research & patient care revenue increasingly competitive

Signs of Stability

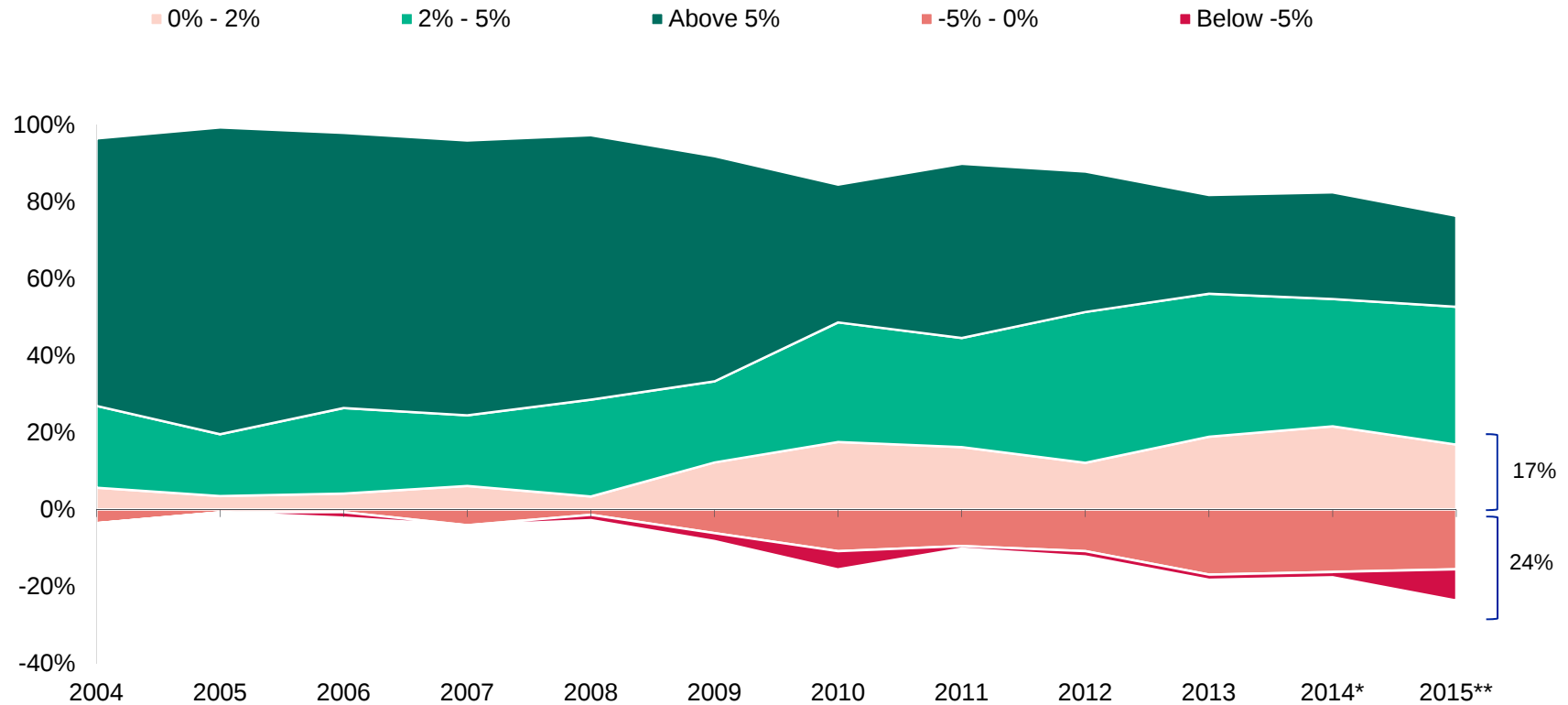
- » Strong overall student demand
- » Equity market returns bolster fundraising and investment income

Aggregate Revenue Growth Will Slow



Source: Moody's Investor Service

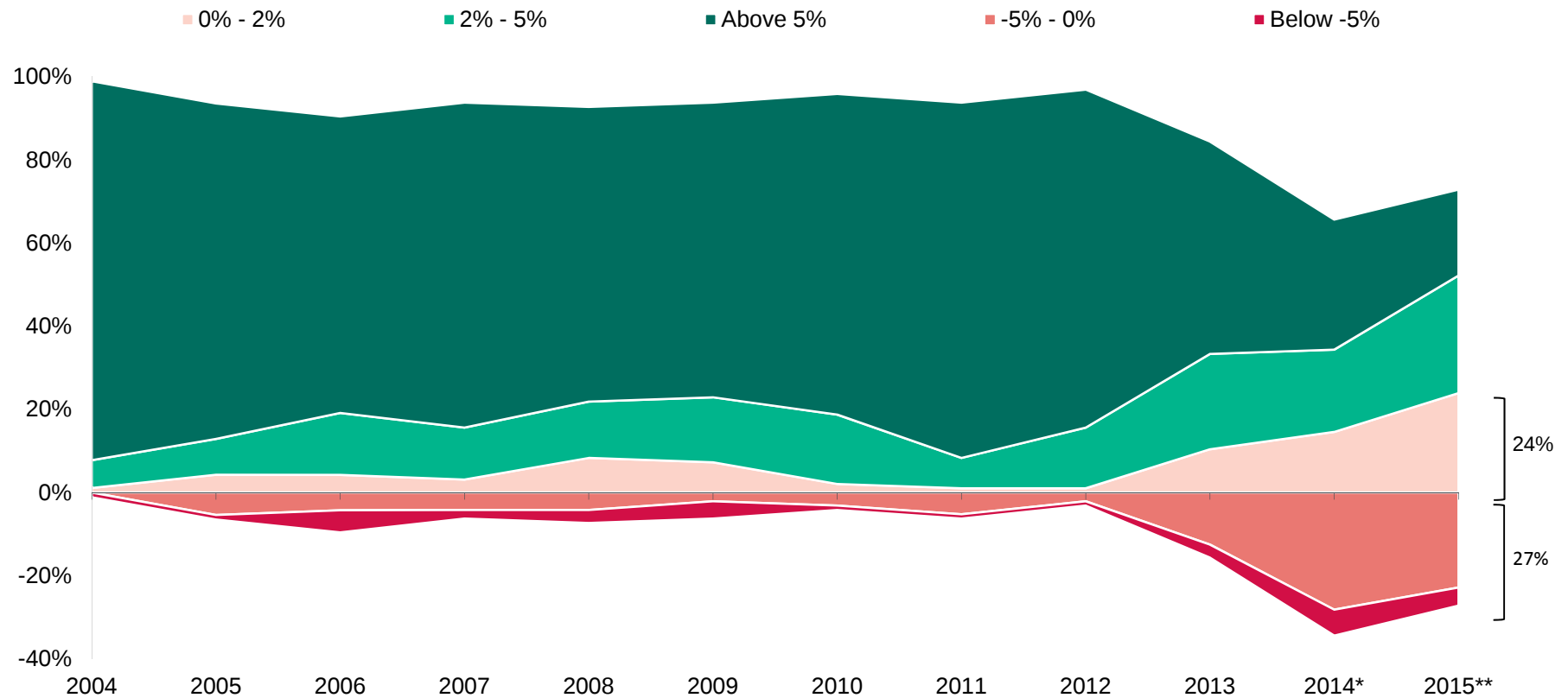
Few Private Universities Will Generate Robust Growth in Net Tuition Revenue



Note: *FY2014 estimate, **FY 2015 forecast

Source: Moody's Investor Service

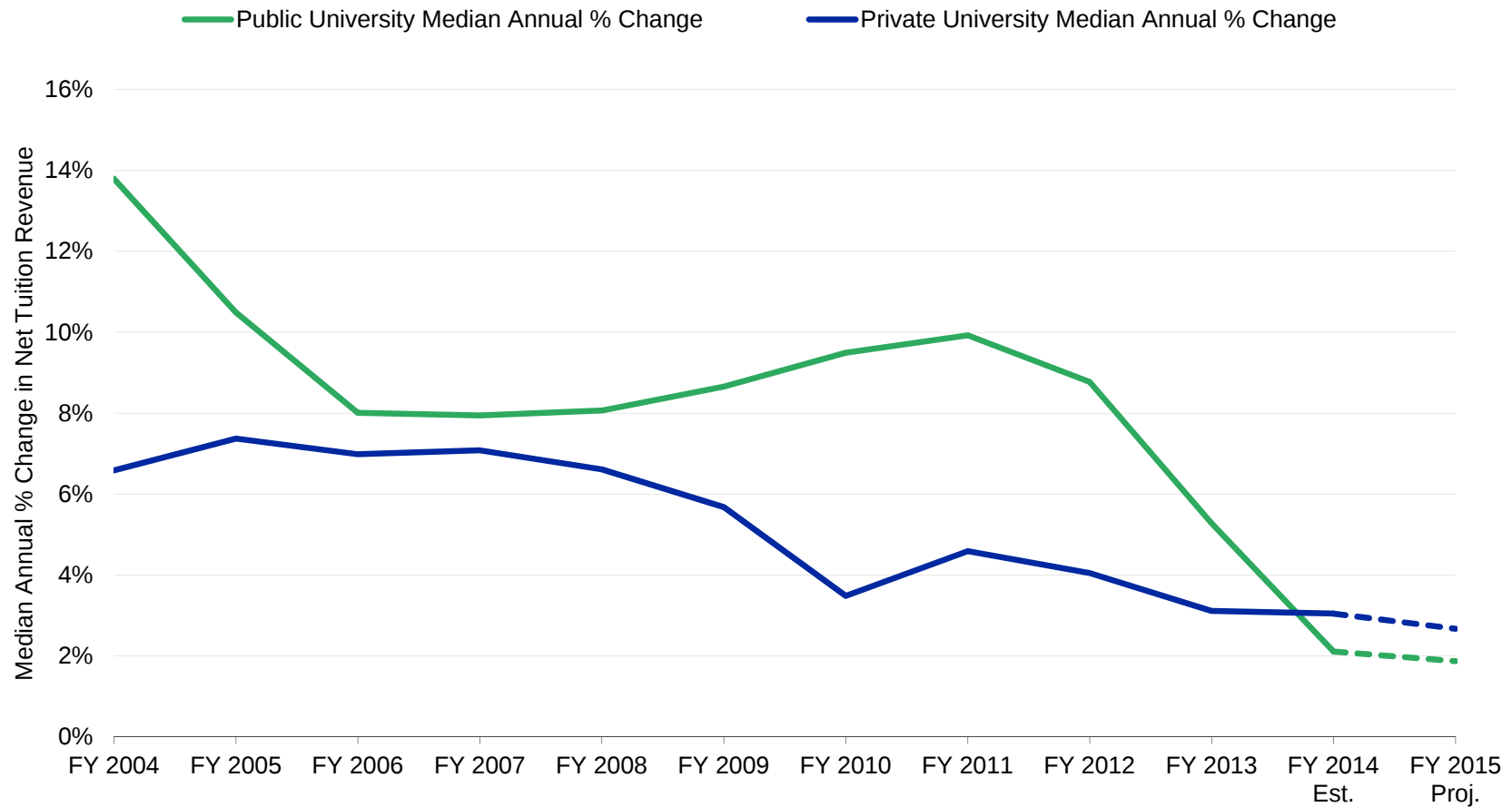
Over Half of Public Universities Face Very Weak Net Tuition Revenue Growth



Note: *FY2014 estimate, **FY 2015 forecast

Source: Moody's Investor Service

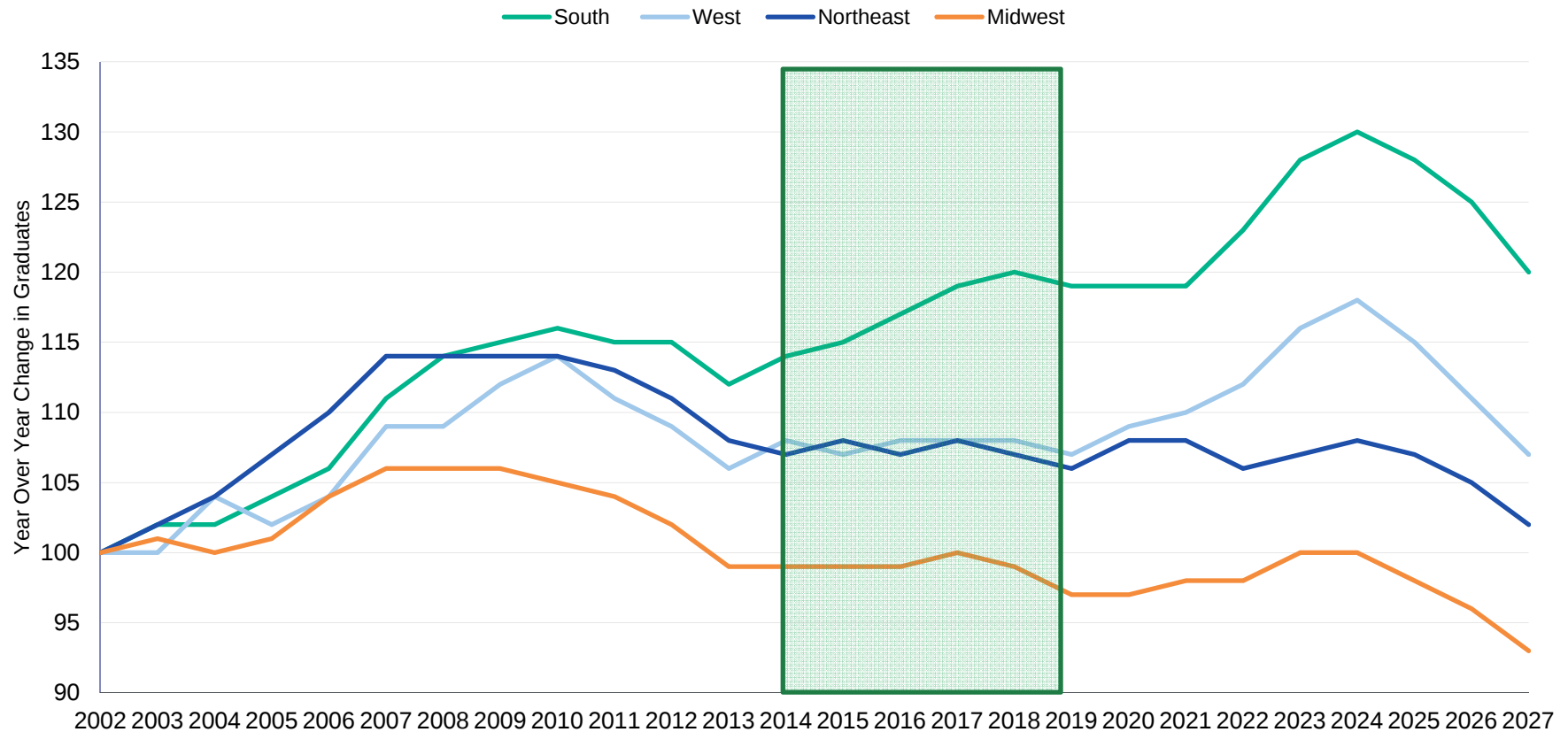
Net Tuition Revenue Growth Slowest in 10 Years



Source: Moody's Investor Service

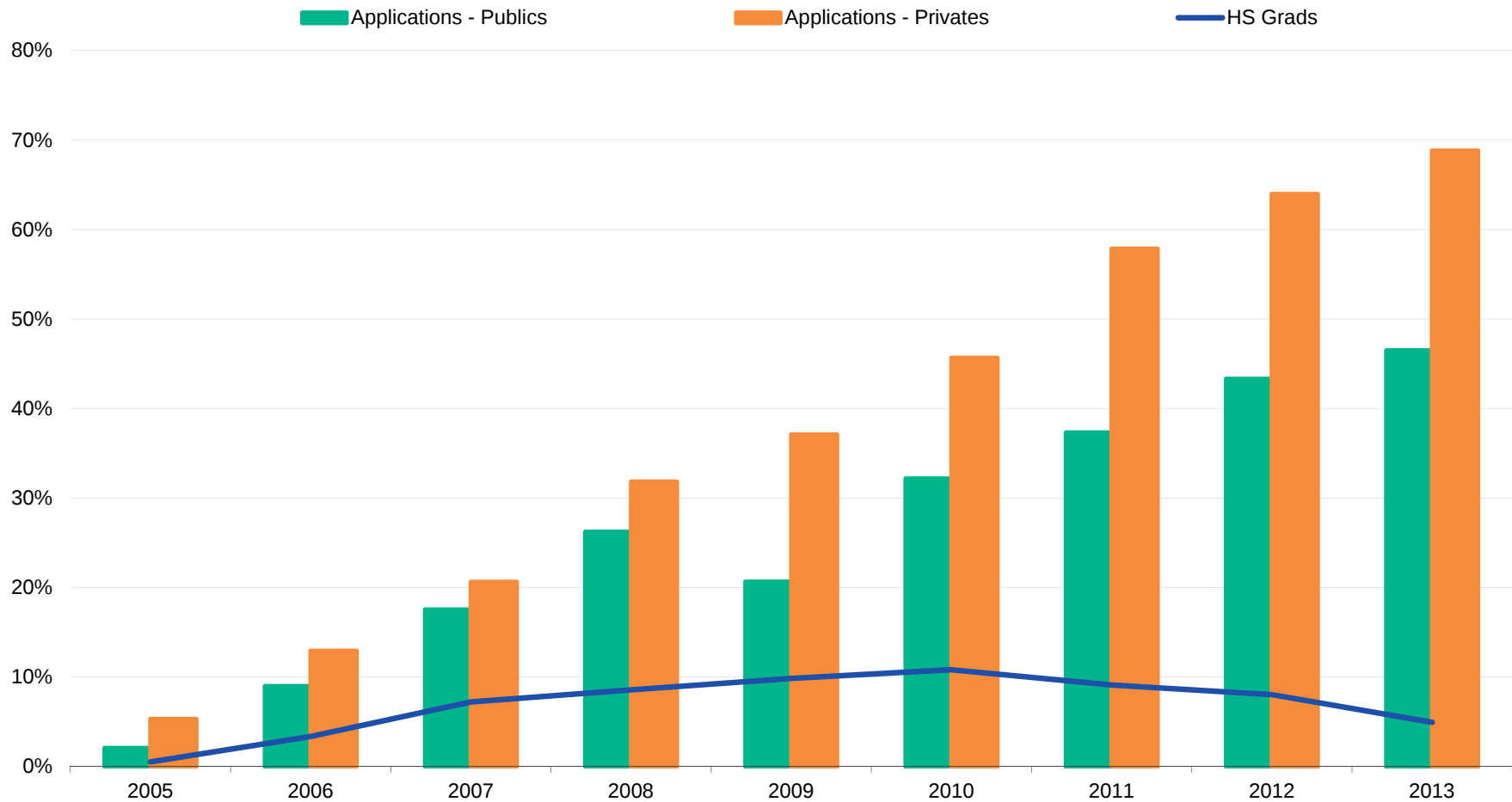
High School Graduates Stabilize at Lower Level for Rest of Decade; South is Positive Outlier

Projected High School Graduates (Base period: 2002 = 100)



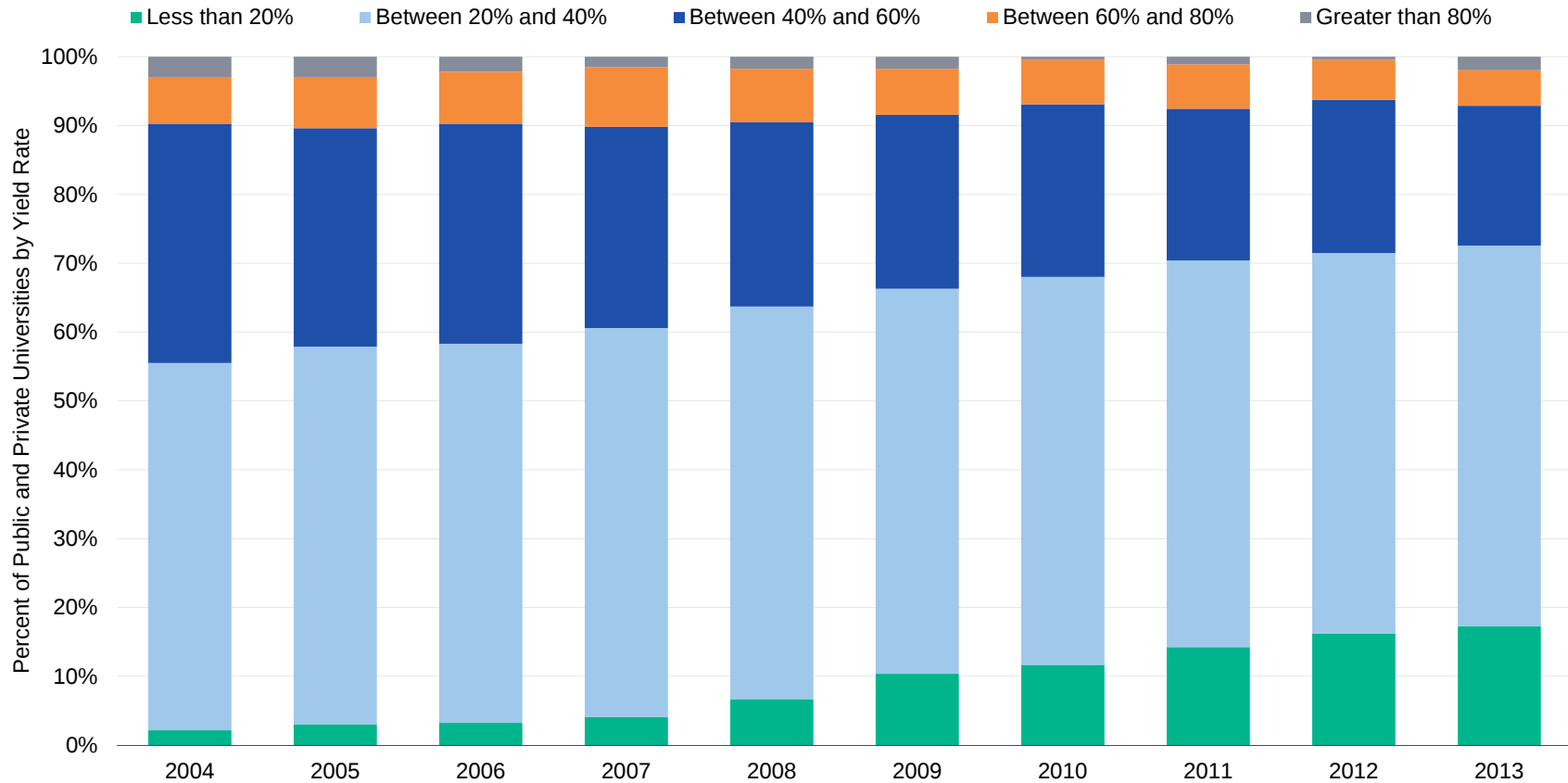
Source: Western Interstate Commission for Higher Education, Moody's Economy.com

Growth in Applications Outpaces New Student Growth



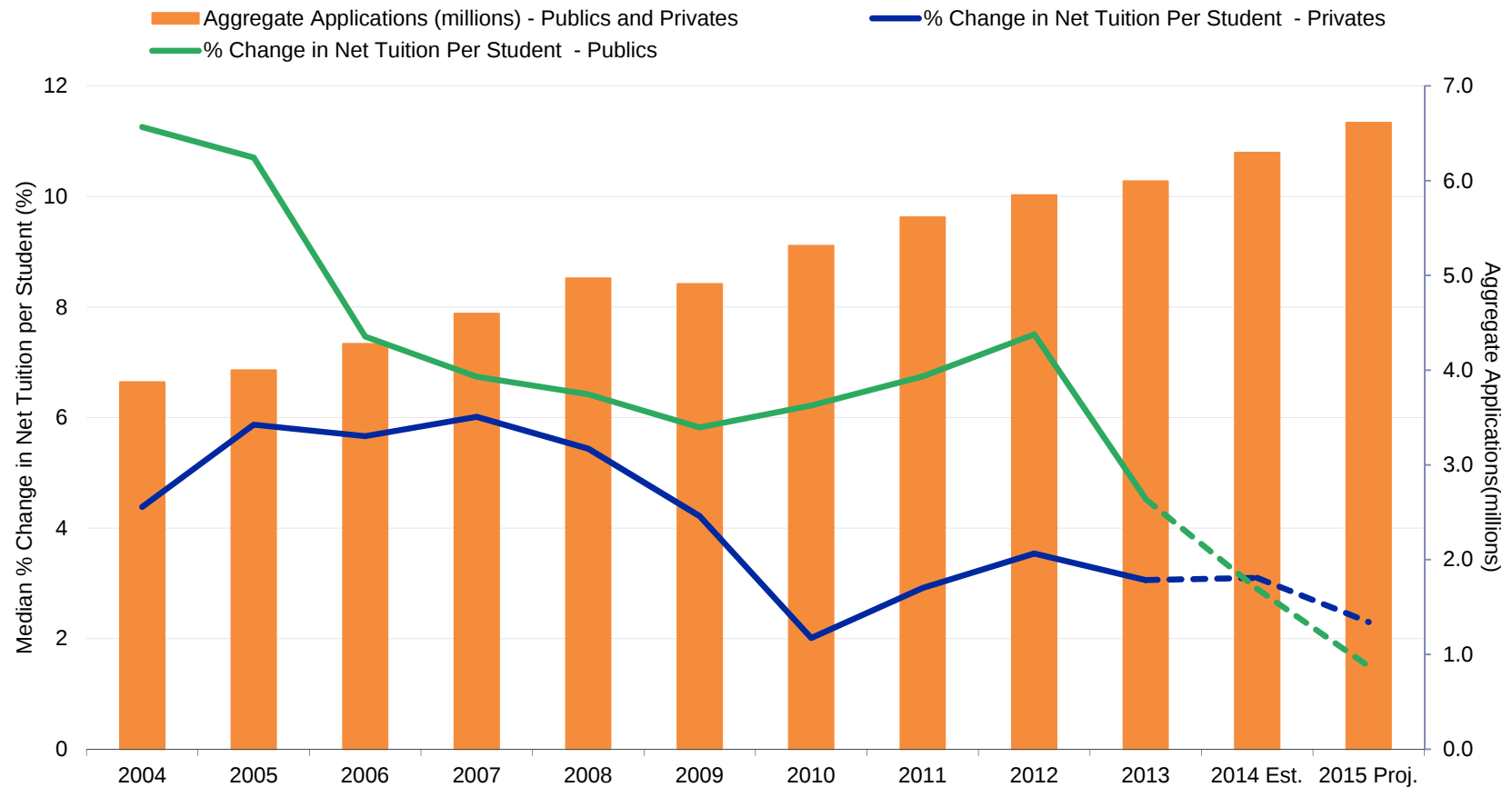
Source: Moody's Investor Service

Large Majority of Universities Now Have Ultra-low Yields Below 20%



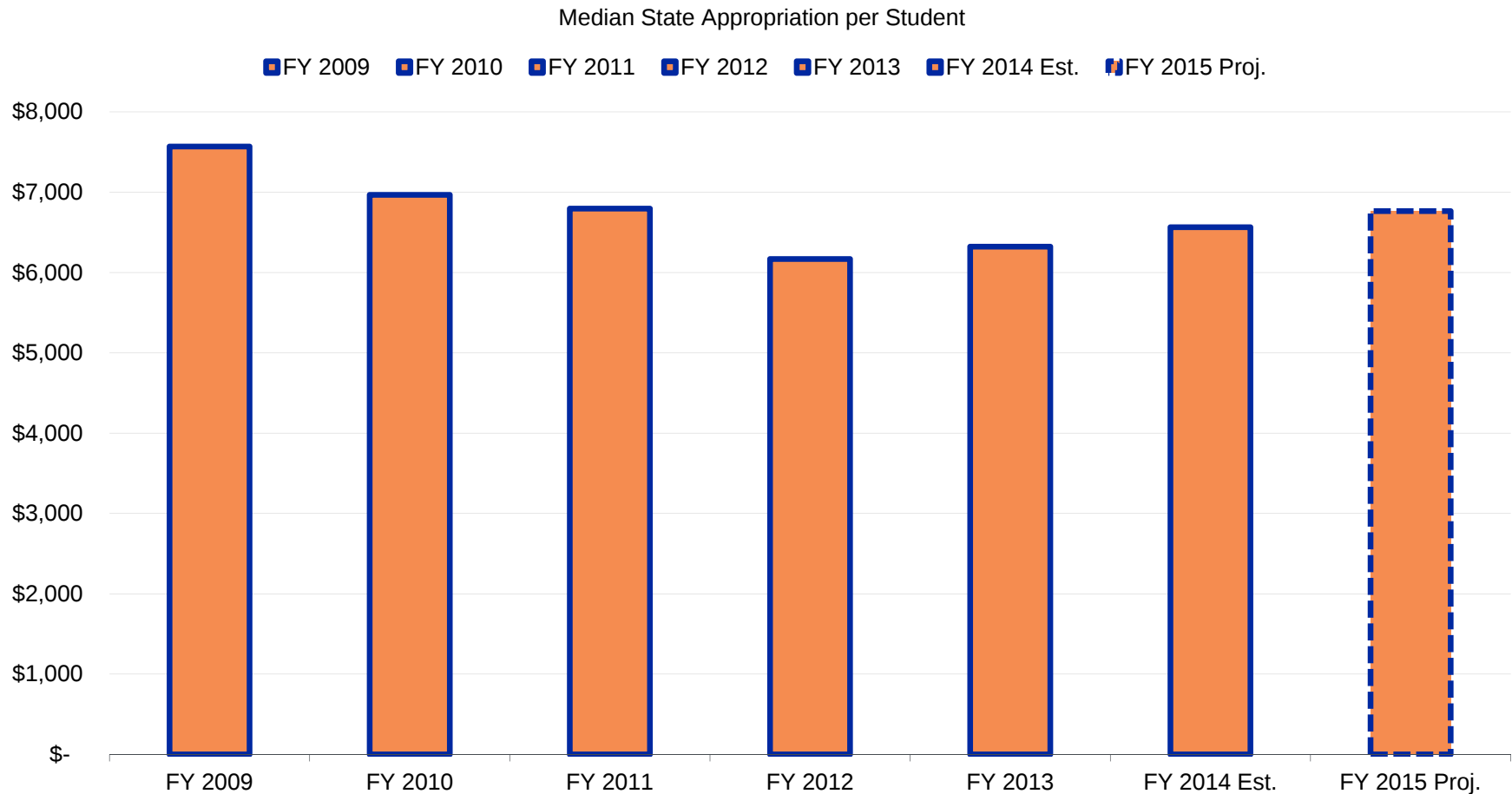
Source: Moody's Investor Service

Booming Applications: No Relationship to Pricing Power



Source: Moody's Investor Service

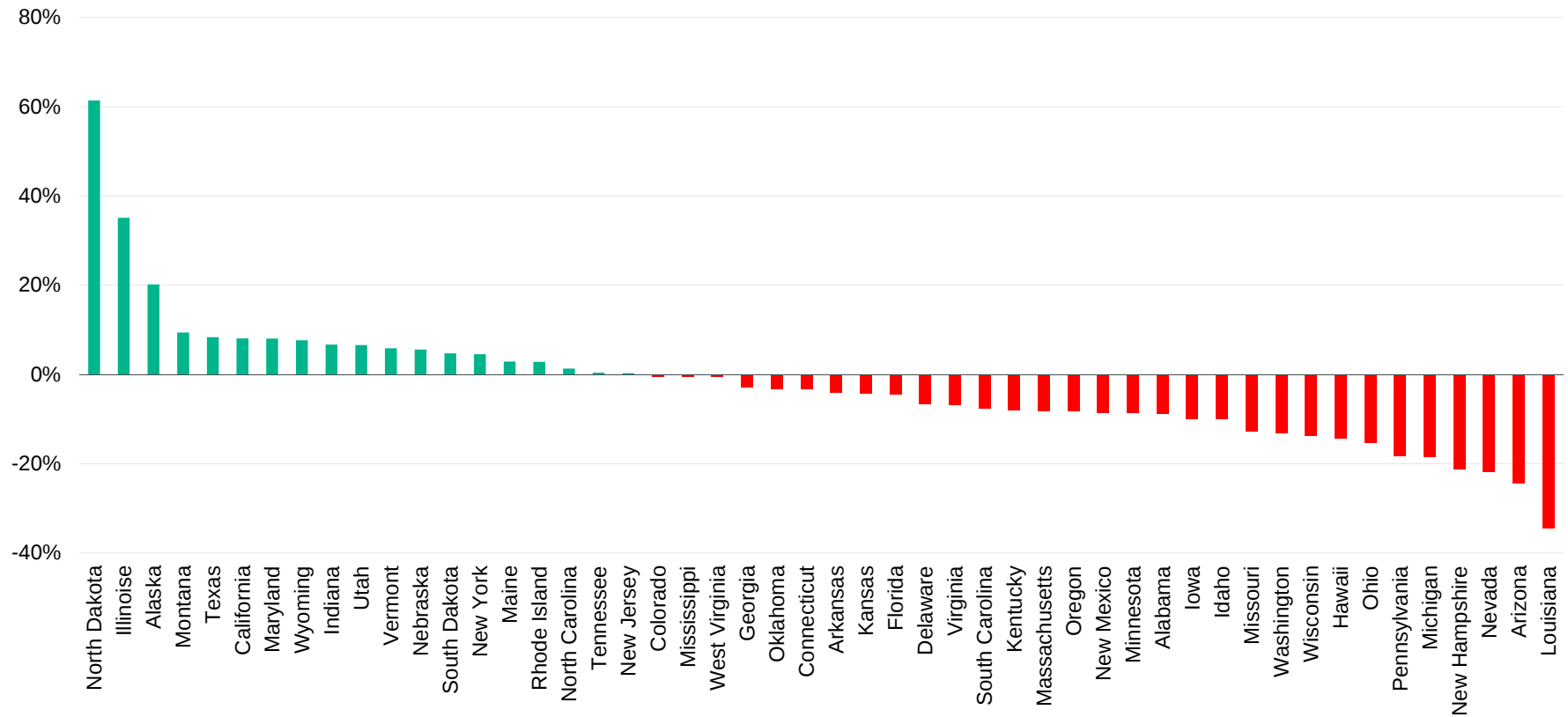
State Appropriations Growing Moderately, But Remain Below Pre-Recession Levels



Source: Moody's Investor Service

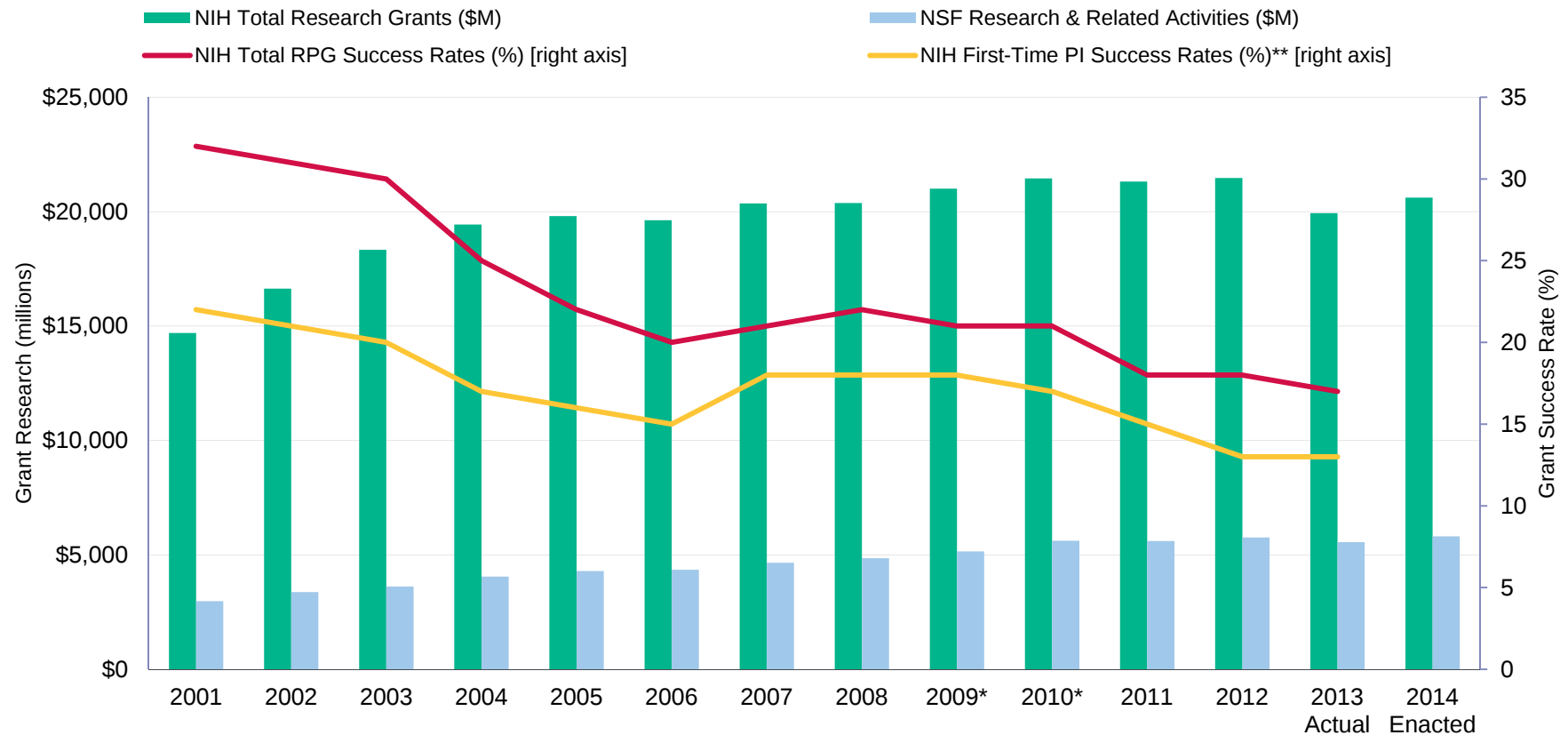
Wide Disparity in Funding Levels from State To State

Funding Still Below Levels Five Years Ago
% increase 2009-2014



Source: Illinois State University-Grapevine Data

Competition Escalates as Research Funding Stagnates

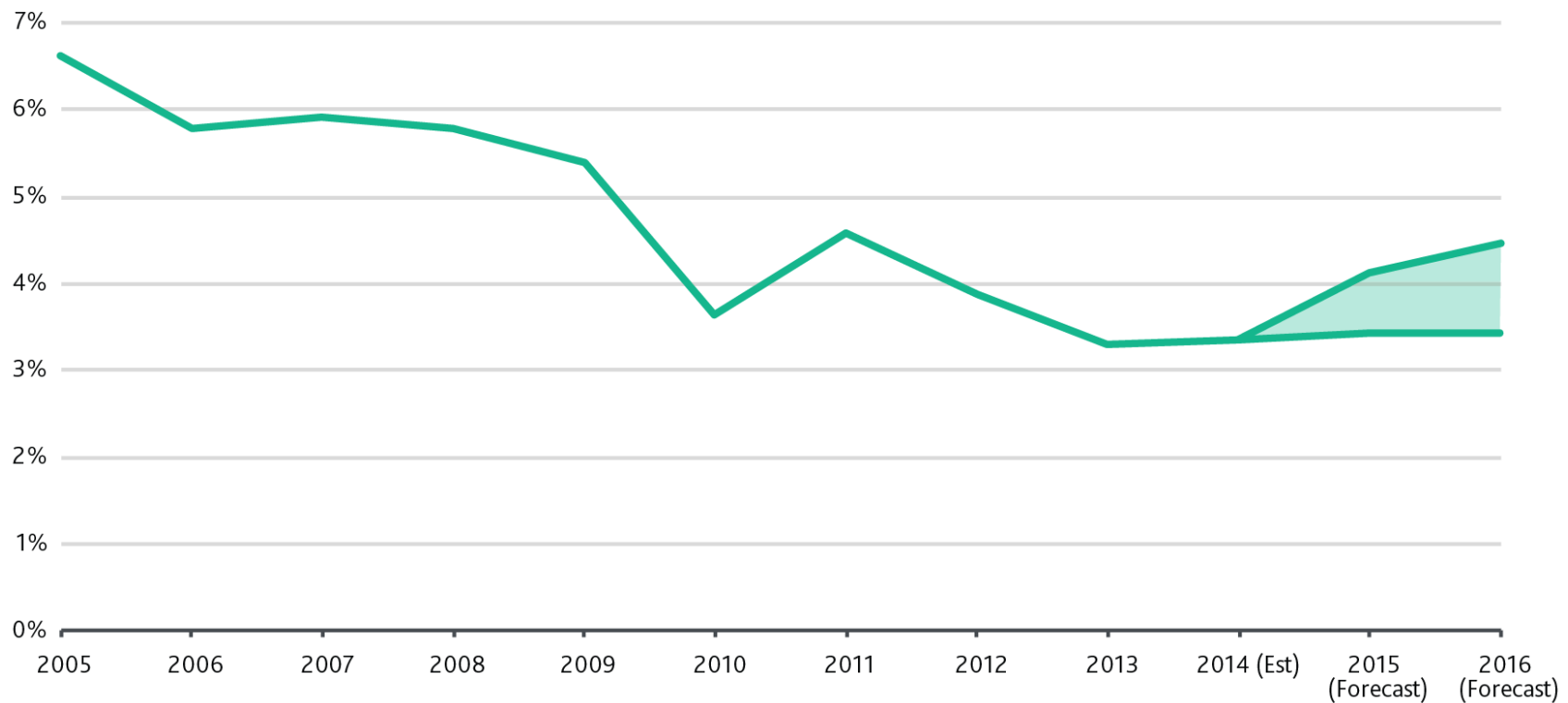


Source: National Institutes of Health; National Science Foundation

*Excludes ARRA Supplemental Appropriation **R01-Equivalent

Healthcare Revenue Growth Low by Historical Standards

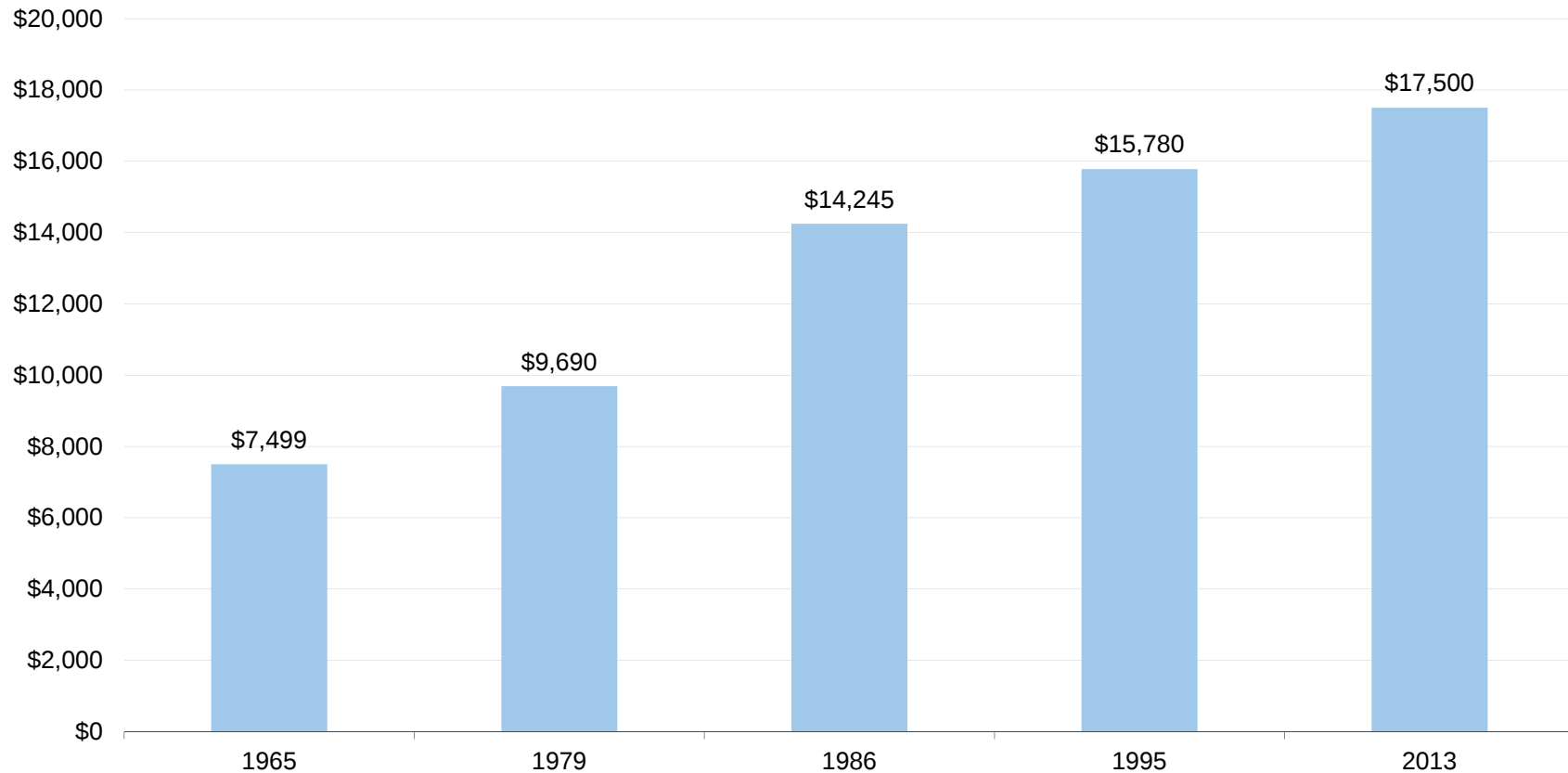
- » General pressure to reduce healthcare spending
- » Shift to government payors
- » Pressure on inpatient volumes



Source: Moody's Investor Service

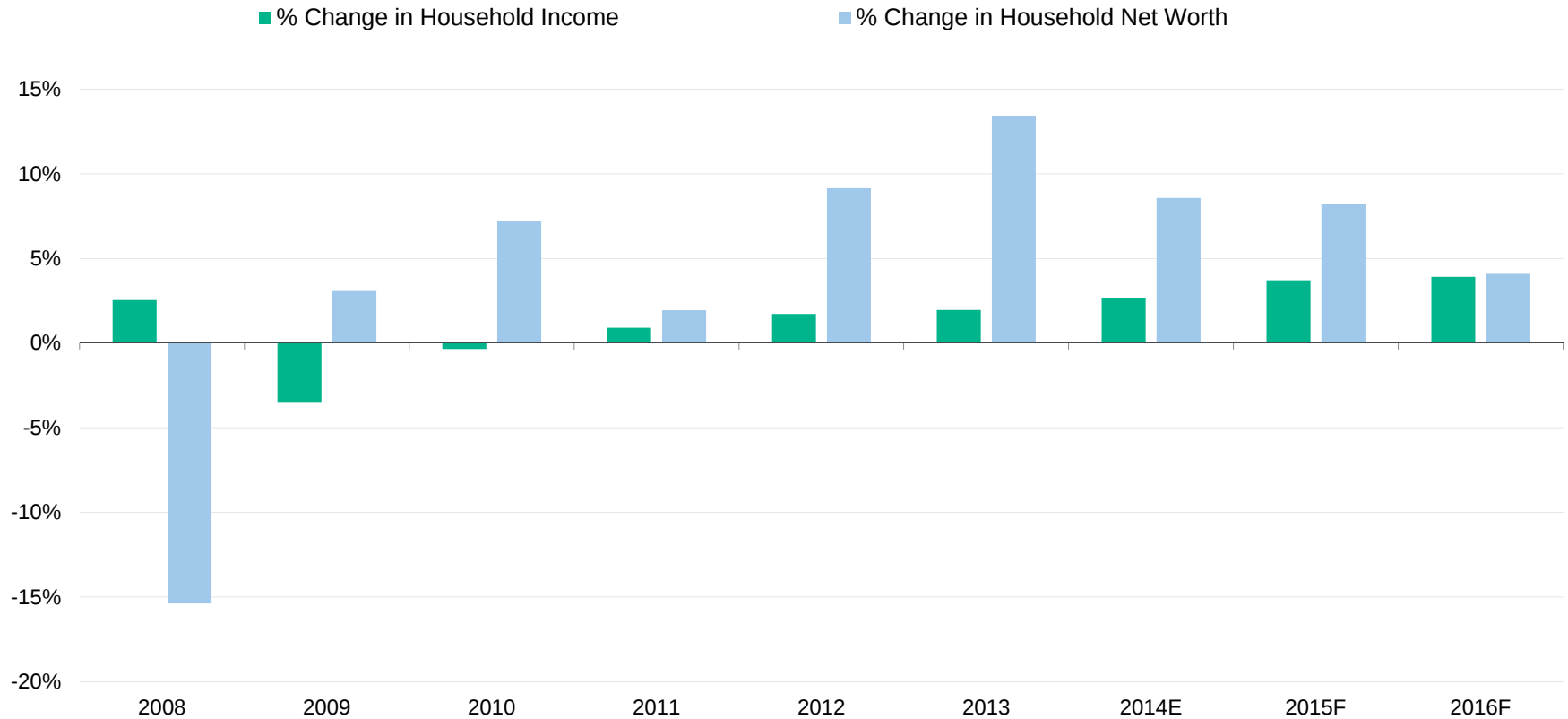
Growing Earnings Disparity Drives Long-Term Demand

Difference in median annual earnings of college and high school graduates at the ages of 25 to 32 (2012 dollars)



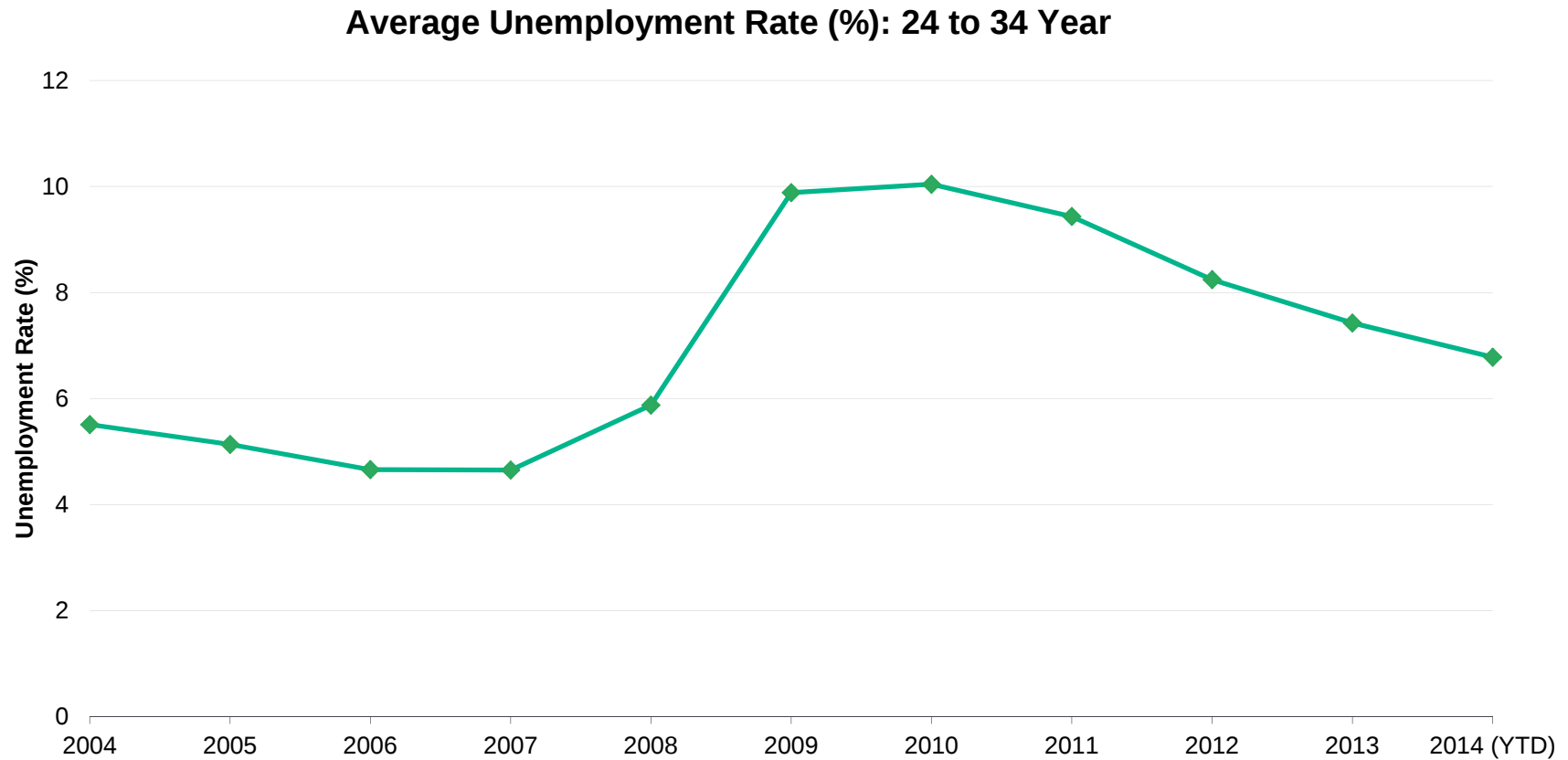
Source: Pew Research Center, February, 2014, *"The Rising Cost of Not Going to College"*

Household Income and Net Worth Rebounding



Source: Moody's Investors Service, Moody's Economy

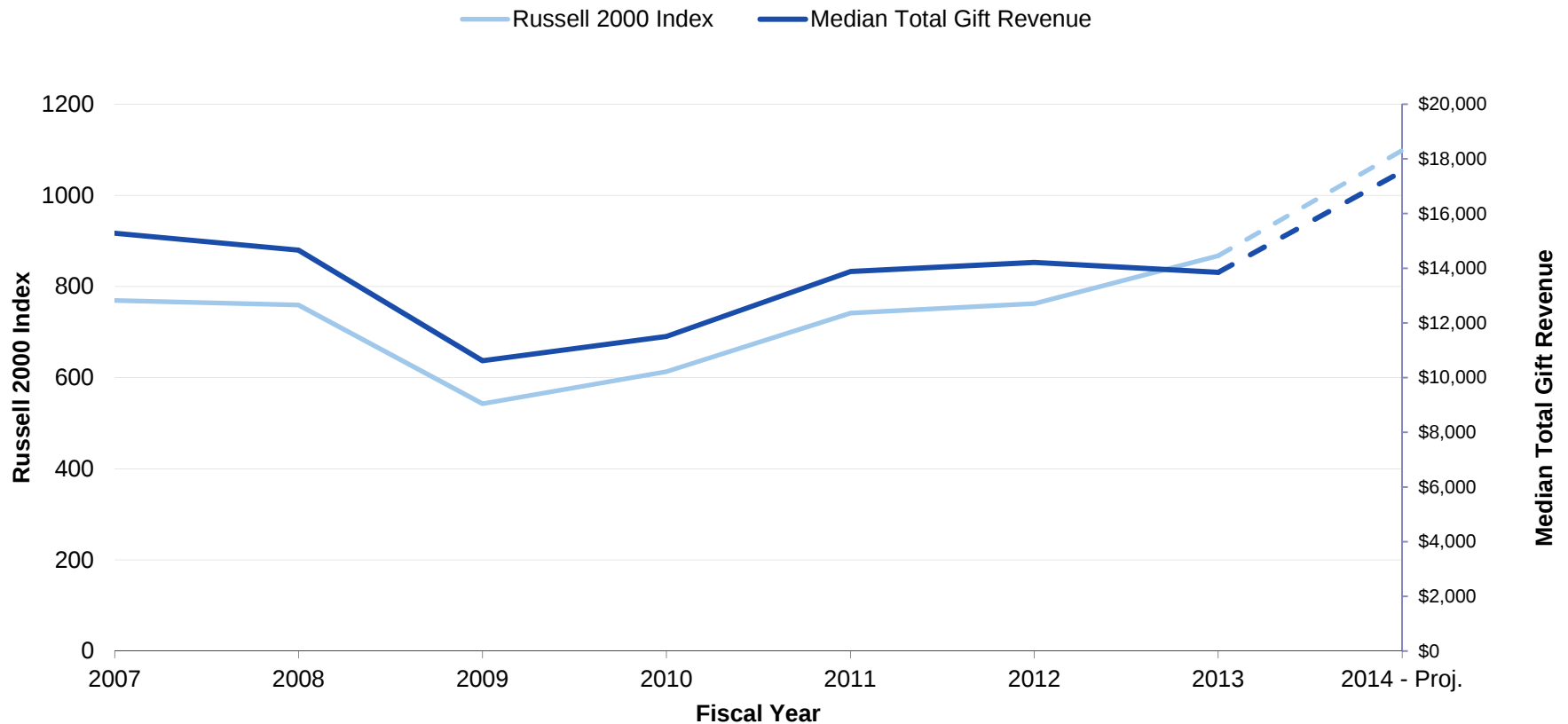
Employment Outlook for Recent Grads Is Improving



Source: Bureau of Labor Statistics

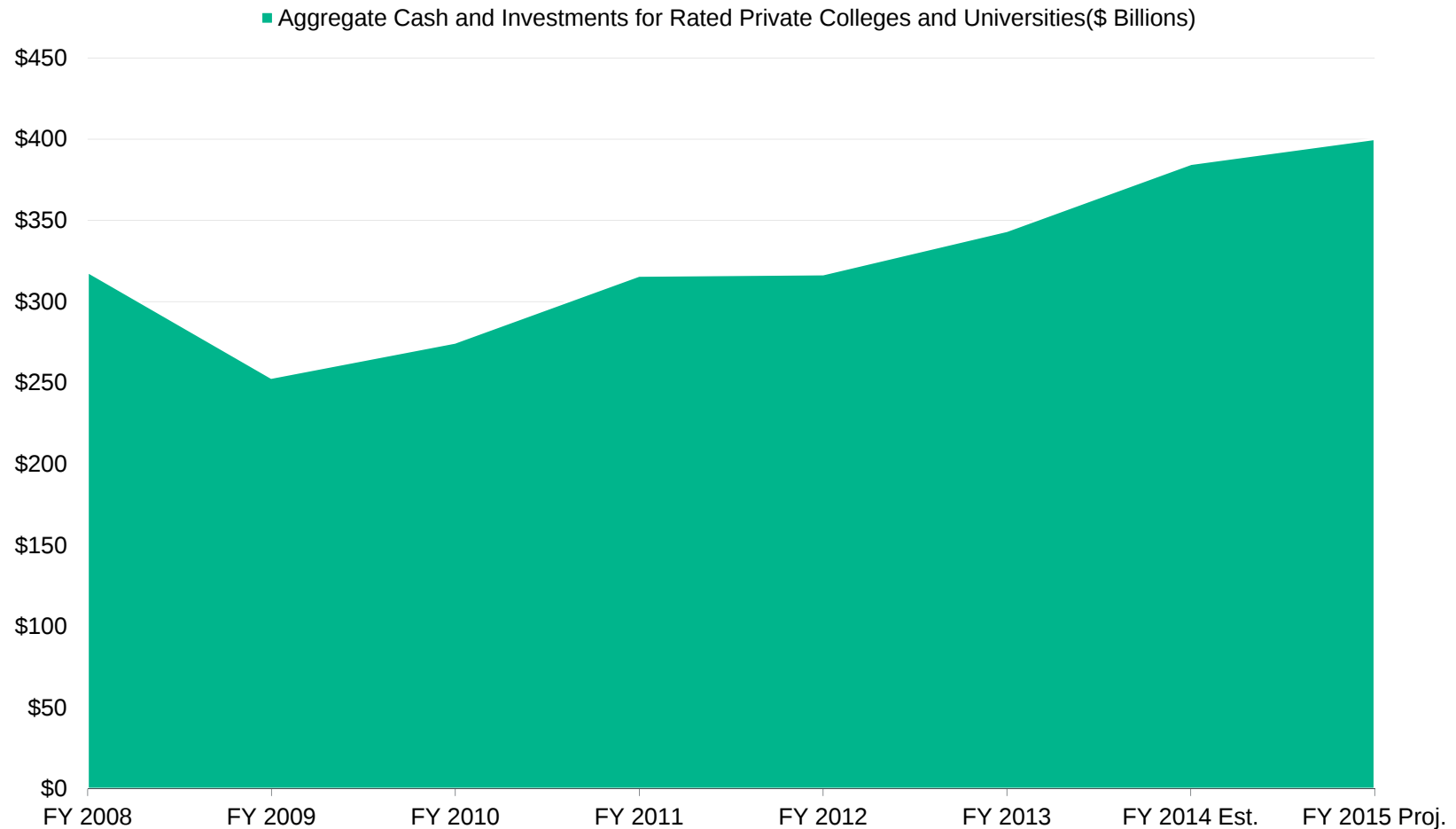
Strong Market Returns Lead to Increased Gift Revenue

Gift Revenue Highly Correlated with Market Returns



Source: Moody's Investor Service

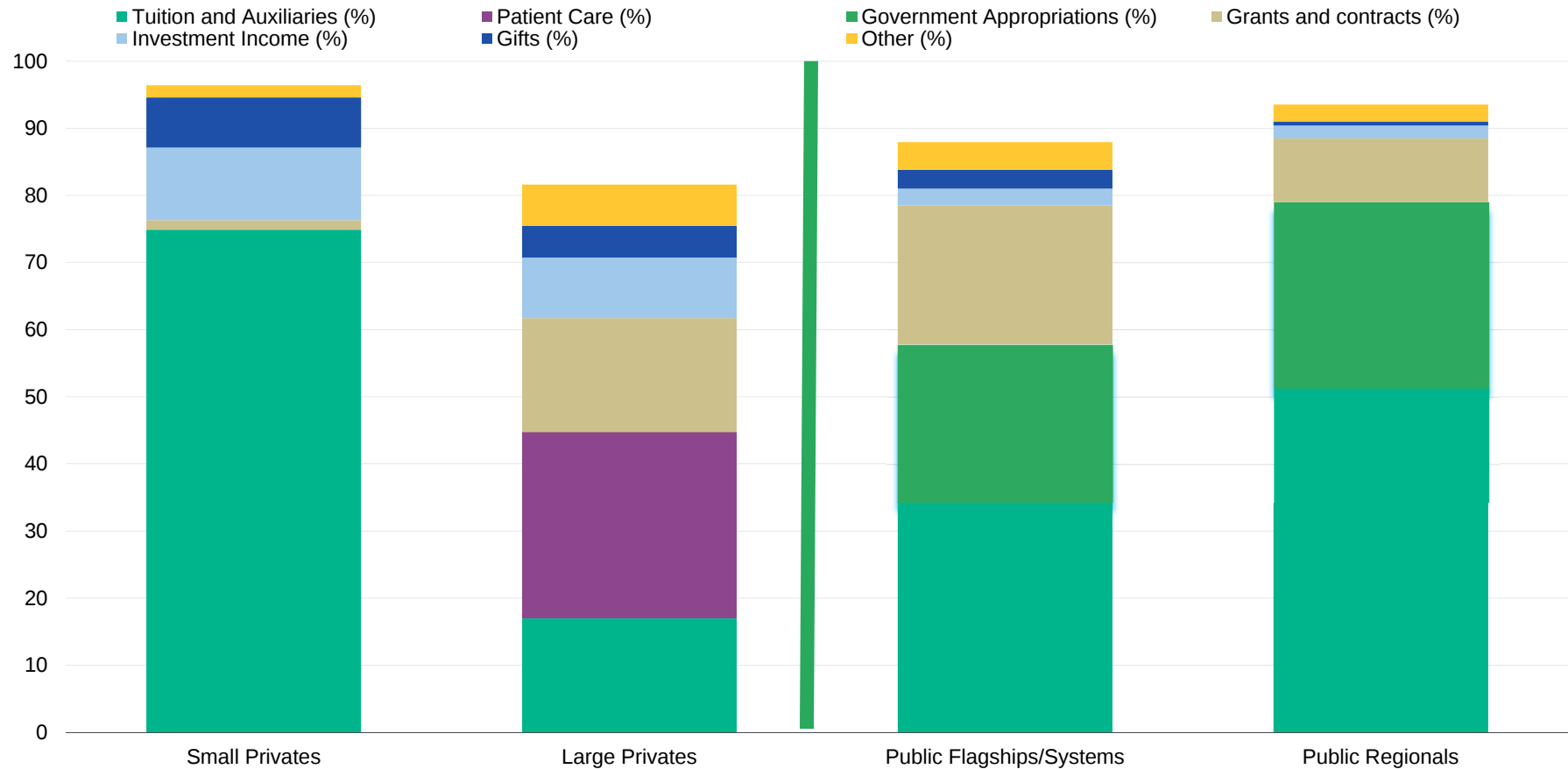
Strong Endowment Returns and Gifts Bolster Cash & Investments



Source: Moody's Investor Service

Size and Diversity Add Credit Strength

(median contribution to operating revenue, will not total to 100%)



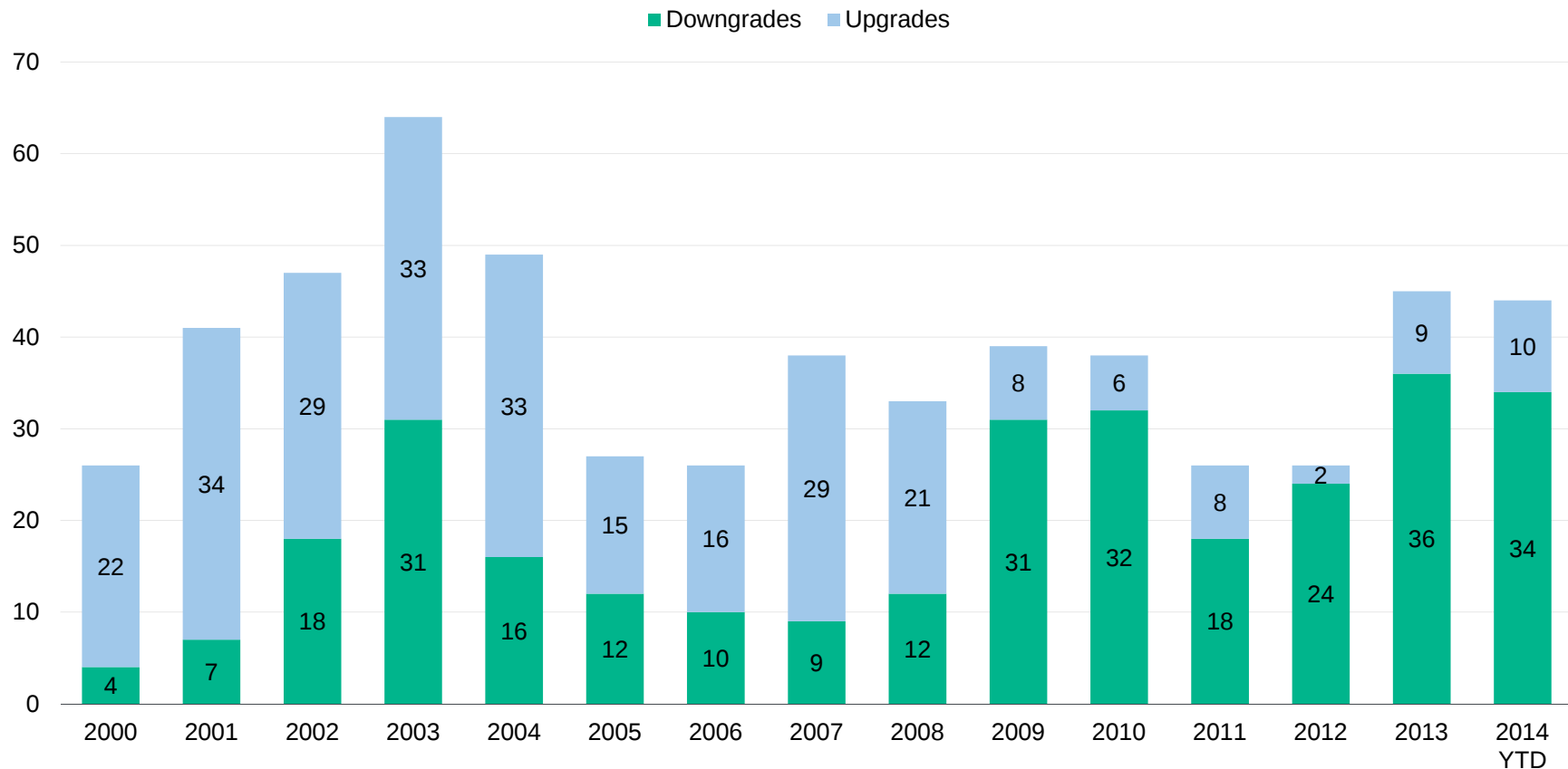
Note: Large Privates are universities with greater than \$1 billion in operating revenue

Source: Moody's Investors Service



Rating Activity

Downgrades Continue to Outpace Upgrades



NOTE: Upgrade of 6 lease revenue bonds issued by the Board of Regents of the University System of Georgia captured as a single rating action.

Source: Moody's, as of December 29, 2014

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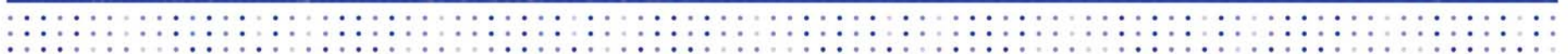
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