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CREDIT OPINION
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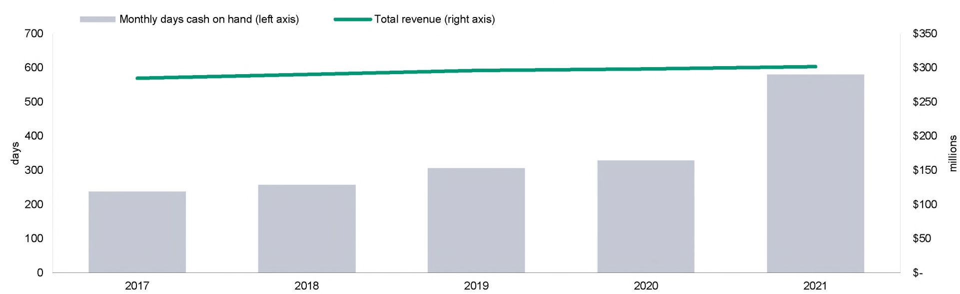
Duquesne University of the Holy Spirit, PA

Update to credit analysis

Summary

Duquesne University's (DU; A2 stable) credit quality is largely supported by its strong wealth and liquidity, which partly offsets the impact of continued revenue pressures. A combination of asset sales and strong investment returns boosted total cash and investments to $683 million, which provides good coverage of expenses and adjusted debt at 2.4x and 2.1x, respectively. Similarly, unrestricted liquidity has also materially strengthened over the last five years to cover a notable 581 days of expenses for fiscal 2021. This financial strength helps mitigate the continued student demand headwinds, which are largely driven by weak demographics and heightened competition. While the university is implementing a multifaceted strategy to address these challenges, near-term net student revenue growth will remain depressed. Favorably, very good financial strategy and policy will help ensure maintenance of operating performance stability.

Exhibit 1
Strong liquidity mitigates recent years of low revenue growth



Source: Moody's Investors Service

Credit strengths

» Sizeable $683 million of total cash and investments and unrestricted monthly liquidity covering 581 days of expenses

» Very good financial strategy and policy, reflected by its conservative budgeting practices, effective risk management, and strategic capital structure management

» Very good brand and strategic positioning as private Catholic university with a diverse program mix, solid academic reputation, and favorable urban location

» Manageable financial leverage as measured by total cash and investments to debt and adjusted debt at 3.2x and 2.1x, respectively

Credit challenges

» Heightened student demand pressures largely driven by weak demographics and competitive conditions, resulting in recent years of enrollment declines

» Limited revenue diversity, with about 80% of total revenue deriving from net tuition and auxiliary revenue

» Modest fundraising as measured by three-year average gift revenue at under $15 million, which is low relative to peers of a similar scale

Rating outlook

The stable outlook is based on Duquesne's strong wealth and liquidity, as well as its prudent financial management practices which will help maintain EBIDA margins of about 10% despite heightened revenue pressures.

Factors that could lead to an upgrade

» Significant strengthening in brand and strategic positioning, primarily reflected in improvements to student demand, revenue growth, and donor support

» Further outsized growth in financial reserves, contributing to materially stronger coverage of debt and expenses

Factors that could lead to a downgrade

» Downturn in student demand, leading to a contraction of EBIDA margins to consistently below 10%

» Material increase in financial or cash flow leverage

Key indicators

Exhibit 2
DUQUESNE UNIVERSITY OF THE HOLY SPIRIT, PA

	2017	2018	2019	2020	2021	2021 PF	Median: A Rated Private Universities
Total FTE Enrollment	8,899	9,006	8,890	8,520	8,058	8,058	4,947
Operating Revenue ($Million)	284.8	290.4	296.1	298.4	301.8	301.8	220.6
Annual Change in Operating Revenue (%)	-0.8	2.0	1.9	0.8	1.1	1.1	-0.9
Total Cash & Investments ($Million)	336.7	408.1	513.1	515.6	683.4	683.4	440.7
Total Adjusted Debt ($Million)	143.8	154.1	273.3	263.3	274.3	316.9	162.8
Total Cash & Investments to Total Adjusted Debt (x)	2.3	2.6	1.9	2.0	2.5	2.1	2.0
Total Cash & Investments to Operating Expenses (x)	1.2	1.4	1.8	1.8	2.4	2.4	1.4
Monthly Days Cash on Hand (x)	238	258	307	329	581	581	382
EBIDA Margin (%)	12.4	11.9	11.2	12.1	12.6	12.6	14.4
Total Debt to EBIDA (x)	4.0	4.4	5.1	4.5	4.6	5.7	4.9
Annual Debt Service Coverage (x)	2.5	2.4	2.5	3.1	3.1	3.1	2.8

Pro forma (PF) column incorporates the new debt from the Series 2021A bond issuance
Source: Moody's Investors Service

Profile

Duquesne University of the Holy Spirit is a private, urban Catholic university located in Pittsburgh, Pennsylvania. Originally established in 1878, the university now offers a diverse mix of undergraduate and graduate programs and certificates. Duquesne serves over 8,058 students and had total fiscal 2021 operating revenue of $302 million.

Detailed credit considerations

Market profile: urban private university with good program diversity and brand confronting competitive pressures

A combination of highly competitive conditions and demographic pressures will continue to depress student revenue growth. Enrollment declined for a third consecutive year for fall 2021, with the pandemic exacerbating existing student demand headwinds. For fall 2021, the university enrolled 8,058 full-time equivalent students, which represents a 9% decline from fall 2017.

Favorably, the university's very good brand and strategic positioning will contribute to longer-term stability in student demand. It's solid academic reputation, diverse program mix that evolves with market conditions, and favorable urban location provide for continued market distinction. Consistently good retention (84% for fall 2021) and student outcomes demonstrate the university's ability to attract students that are both academically prepared and well-matched. In addition, introduction of high demand programs, including those offered at the new College of Osteopathic Medicine, will further strengthen the university's brand.

A high 80% dependence on net tuition and auxiliary revenue underscores the importance of enrollment and financial aid strategy. Under new enrollment management leadership, the university is executing a multifaceted strategy intended to strengthen the student pipeline. A significantly higher first year class will be targeted for fall 2022 relative to the 1,233 enrolled for fall 2021. If executed, it would increase prospects for restoring net tuition revenue growth by fiscal 2023.

Operating performance: careful budget management supports prospects for maintaining operating performance stability

While revenue headwinds will continue, the university's careful budget management will contribute to continued operating performance stability. Revenue increased just 1-2% annually since fiscal 2017, though expenses were adjusted accordingly to maintain EBIDA margins above 11%. A second consecutive year of enrollment decline in excess of 4% will contribute to a modest revenue decrease for fiscal 2022. However, Moody's expects further implementation of expense adjustments to mitigate the impacts of the revenue decline and prevent material operating performance narrowing. Maintaining EBIDA margins at historical levels in the 11-13% range is essential to preserving debt service coverage at around 2x and credit quality.

As a US-based private institution, DU's very good operating environment is primarily supported by the federal policy environment. The availability of various student financial aid programs offered by the federal government support student affordability and access. Manageable fixed costs relative to budget demonstrate an absence of material postretirement benefit exposure, as well as no decisions made by prior administrations that hinder the ability to pursue institutional objectives.

Wealth and liquidity: substantial wealth and liquidity, bolstered by recent investment returns and asset sales

Wealth and liquidity levels will remain favorable relative to peer medians. Boosted by an outsized 35% annual investment return, total cash and investments increased to $683 million for fiscal 2021, which provided for a good 2.4x coverage of expenses. While improving donor support is a key leadership priority, three-year average gift revenue of $14.7 million remains modest for the university's size.

Liquidity

Excellent liquidity provides the university with significant capacity to respond to any unforeseen financial challenges. For fiscal 2021, unrestricted monthly liquidity of $428 million covered a very strong 581 days of expenses, which has more than doubled since fiscal 2017. These gains were largely driven by a combination of asset sales and the outsized investment returns for fiscal 2021. With an all fixed-rate debt structure and surplus operations, exposure to potential liquidity risks is minimal.

Leverage: manageable financial and cash flow leverage

The university's substantial wealth provides capacity to absorb the additional $43 million of Series 2021A bonds, which will be used to finance a new College of Osteopathic Medicine. Total cash and investments cover pro forma debt and total adjusted debt by a solid 3.2x and 2.1x, respectively. The new bond issuance represents a continuance of regular investment in facilities, with capital spending averaging about 1.5x depreciation expense over the last five years.

Total adjusted debt primarily consists of about $217 million of pro forma bonded debt, as well as a $100 million debt-like obligation. In 2019, the university monetized its energy facility and entered into a long-term contractual agreement with a counterparty to own, operate, and maintain the system. As part of the arrangement, the university makes long-term fee payments to the counterparty, the terms of which are embedded in the contractual agreement. The university reports that the energy partnership has, thus far, performed to expectations.

The university also recently monetized two residence halls, which are not accounted for in adjusted debt given the structure of the agreement with the counterparty. While the agreement with the counterparty provides insulation against performance risk, the project is still incorporated analytically into the credit analysis given the reputational risks the could materialize in the event of project underperformance.

Legal security
All of rated debt is an unsecured general obligation of the university.

Debt structure
The university's debt is conservatively structured with minimal risk. All debt is fixed rate debt with consistent principal amortization and level annual debt service payments. The Series new money portion of the 2021A bonds, which have a scheduled final maturity in fiscal 2041, will be structured to wrap around existing debt service.

Debt-related derivatives
There are no debt-related derivatives.

Pensions and OPEB
Exposure to post-employment benefit obligations remains modest. The university does not offer a defined benefit pension plan. Rather, eligible employees participate in one of two defined contribution plans. For fiscal 2019, the university's expenses for the defined contribution plans amounted to just 3% of total operating expenses.

Certain university retirees are eligible for postretirement health benefits (OPEB) which are funded on a pay-as-you-go basis. For fiscal 2021, the OPEB related liability was a modest $6 million.

ESG considerations

Environmental
Environmental considerations are not a key credit driver at this point. Still, the university's Pittsburgh location provides for exposure to climate risks, particularly extreme rainfall and flooding. Favorably, the university's campus facilities are primarily well above sea level, which mitigates exposure to this particular risk.

Sustainability policies are embedded through all facets of the university, which aligns with institutional values as well as priorities of students and donors. Specific efforts have been undertaken to reduce waste, conserve energy, bolster research and academic programming geared towards sustainability. The recent monetization if its energy assets and long-term agreement with a private partner with allows for improved reliability and efficiency of the utility system, and reduction of waste.

Social
Demographics and responsible production constitute the two most significant social considerations for Duquesne. More than 70% of students are from Pennsylvania, a state with a projections for flat to declining numbers of high school graduates over the next decade. These demographic headwinds will continue to temper net tuition revenue growth. Favorably, the university's six year graduation rate of 80% for its most recently reported cohort is well above the private university average of 67%, indicating responsible production.

Governance
The university's leadership team has an established track record of strong institutional stewardship. Very good financial policy and strategy contributes to consistently stable financial operations despite a multi-year trend of low revenue growth. Further, regular investments in facilities, programs, and other student-centered initiatives will help maintain market appeal, even as competitive headwinds persist. A strategy to monetize certain non-core capital assets serves the long-term strategic goals of the university, and significantly bolstered financial reserves and resources for reinvestment.

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

Duquesne University

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	302	A
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	A	A
	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)	683	Aa
	Total Cash and Investments to Operating Expenses	2.4	A
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investment to Total Adjusted Debt	2.2	A
	Annual Debt Service Coverage	2.4	Baa
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	A	A
	Scorecard-Indicated Outcome		A2
	Assigned Rating		A2

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.

Total adjusted debt and debt service coverage calculation incorporates the new $43 million of debt from Series 2021 bonds
Source: Moody's Investors Service

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