

CREDIT OPINION

16 November 2023


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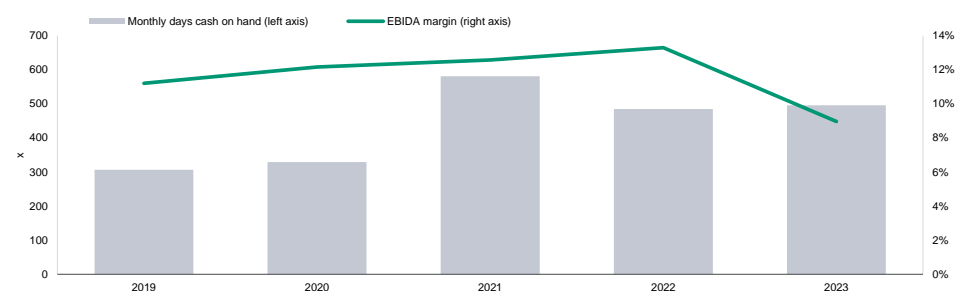
Duquesne University of the Holy Spirit, PA

Update to credit analysis

Summary

[Duquesne University's](#) (A2 stable) credit quality is largely supported by its significant wealth and liquidity, solid market profile, and sound financial management. These factors partly mitigate the growing budget pressures deriving from the persistently high inflation and sustained trend of constrained revenue growth. The university's favorable regional reputation and good program diversity will support longer-term student demand despite the challenging market landscape. Heightened competition and weak regional demographics will continue to suppress net tuition revenue growth and contribute to some contraction in operating margins over the near-term. The new \$30 million bond issuance will further constrain the university's already elevated debt levels relative to cash flow. Management's demonstrated record of budget discipline will help sustain break-even operating results. Further, very strong liquidity will continue to support significant financial flexibility and the capacity to respond to budgetary challenges.

Exhibit 1

Strong liquidity partly mitigates the impact of growing budget challenges and narrowing margins


Source: Moody's Investors Service

Credit strengths

- » Solid wealth and liquidity, with \$665 million of total cash and investments, and unrestricted monthly liquidity providing a robust 495 days cash on hand
- » Sound financial management and a demonstrated history of good operating discipline and strategic planning
- » Very good brand and strategic positioning as private Catholic university with diverse academic programs, a solid academic reputation, and significant scale with total operating revenue at \$300 million

Credit challenges

- » Elevated student market pressures largely driven by weak demographics and competitive conditions, resulting in a sustained trend of constrained net tuition revenue
- » Moderating operating performance due to challenging revenue conditions and persistently high inflation, reflected in the 9% EBIDA margin in fiscal 2023 compared to the five-year trailing average of 12%
- » Limited revenue diversity, with about 80% of total revenue deriving from net tuition and auxiliary revenue

Rating outlook

The stable outlook reflects Moody's expectations that the university will sustain revenue growth and maintain break-even operating results. It also incorporates expectations that the college of medicine will achieve enrollment targets and profitability within the articulated timeline.

Factors that could lead to an upgrade

- » Significant increase in financial reserves, providing for materially stronger coverage of adjusted debt and operating expenses
- » Strengthening in brand and strategic positioning, reflected in improved student demand, philanthropy, and revenue growth

Factors that could lead to a downgrade

- » Erosion in operating performance, reflected in a sustained move to deficit operations
- » Downturn in student demand, leading to an inability to consistently grow revenue
- » Material increase in leverage or weakening in debt affordability

Key indicators

Exhibit 2

DUQUESNE UNIVERSITY OF THE HOLY SPIRIT, PA

	2019	2020	2021	2022	2023	2023 pro forma	Median: A Rated Private Universities
Total FTE Enrollment	8,890	8,520	8,058	7,864	7,919	7,919	5,320
Operating Revenue (\$000)	296,072	298,421	301,768	304,334	300,385	300,385	239,809
Annual Change in Operating Revenue (%)	1.9	0.8	1.1	0.9	-1.3	-1.3	10.7
Total Cash & Investments (\$000)	513,097	515,581	683,448	627,872	664,715	664,715	529,788
Total Adjusted Debt (\$000)	273,254	263,342	274,336	307,377	296,562	326,387	194,248
Total Cash & Investments to Total Adjusted Debt (x)	1.9	2.0	2.5	2.0	2.2	2.0	2.9
Total Cash & Investments to Operating Expenses (x)	1.8	1.8	2.4	2.2	2.2	2.2	2.4
Monthly Days Cash on Hand (x)	307	329	581	484	495	495	417
EBIDA Margin (%)	11.2	12.1	12.6	13.3	9.0	9.0	16.2
Total Debt to EBIDA (x)	5.1	4.5	4.6	5.2	7.5	8.6	4.9
Annual Debt Service Coverage (x)	2.5	3.1	3.1	3.1	1.9	1.9	3.3

Pro forma column includes the new \$29 million of Series 2024 bonds

Source: Moody's Investors Service

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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, graduate, professional, and certificate programs. Duquesne had total enrollment of 7,919 full-time equivalent students in fall 2023 and total operating revenue of \$300 million in fiscal 2023.

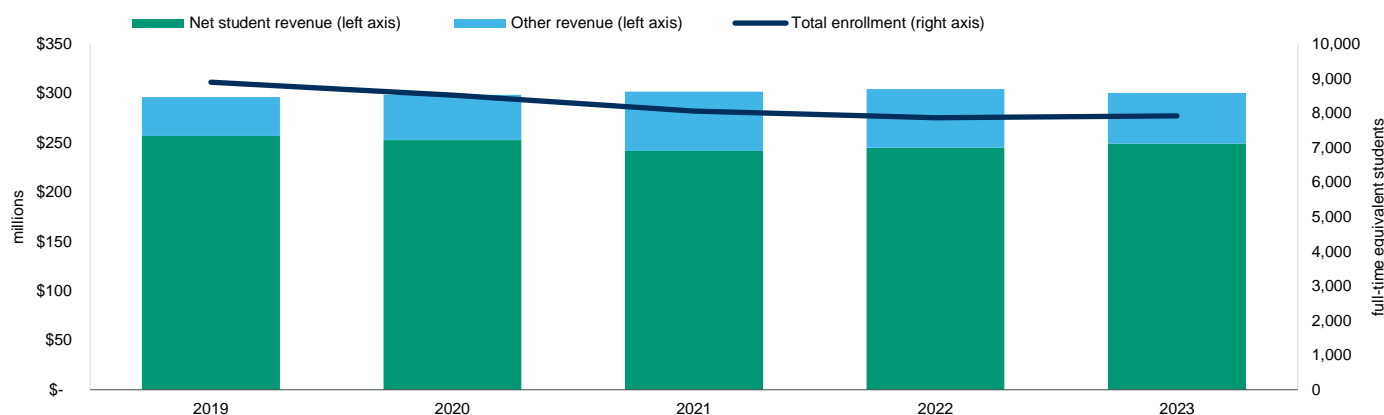
Detailed credit considerations

Market profile

The university's solid regional reputation will support longer-term student demand and generally stable enrollment. However, heightened competition and weak regional demographics will continue to constrain pricing power and revenue growth. These factors contributed to an eleven percentage point decline in the yield rate over the last five years to 13% in fall 2023. Like most private universities, Duquesne has a high dependence on student charges, at 84% of total operating revenue. Further, about 70% of students are from Pennsylvania, which underscores the importance of maintaining in-state market share. Both enrollment and net tuition revenue edged up in fiscal 2024 following a sustained trend of declines that were mainly driven by the difficult market conditions and the pandemic. The university continues to refine recruitment and admissions strategies to align with market conditions, while also introducing new high demand programs in fields such as health sciences and engineering. The steady ramp up of the new College of Osteopathic Medicine through fiscal 2030 will add both scale and cash flow if the enrollment targets are achieved.

Exhibit 3

Student market challenges continue to constrain revenue growth and enrollment



X-axis represents fiscal year for revenue, and fall semester for enrollment

Source: Moody's Investors Service

Operating performance

Sound financial management will contribute to longer-term budget stability, but some operating margin compression is likely to materialize in the next one to two years. The university generated a 9% EBIDA margin in fiscal 2023, which lagged the trailing five-year average of 12%. This narrowing in operating results was driven by the combination of declining net tuition revenue, inflationary pressures, and the end of pandemic relief revenue. The university's financial forecast signals that the fiscal 2024 margin will be comparable to slightly weaker than fiscal 2023. The continuation of budget headwinds and the scaling up of the new college of medicine will continue to suppress operating margins in fiscal 2025. Favorably, the university has a track record of operating discipline, reflected in its longer history of closely aligning revenue and expense growth.

Wealth and liquidity

Solid wealth levels and liquidity will remain supportive of credit quality. Total cash and investments of \$665 million covered operating expenses and pro forma adjusted debt by a respective 2.2x and 2.0x in fiscal 2023, which is in-line with peer medians. Unrestricted monthly liquidity of \$380 million provided a robust 495 days cash on hand. Financial reserves increased by more than double over the last decade, mainly due to strong investment returns and the monetization of non-core assets. With narrower margins over the next one to two years, the pace of financial reserve growth will be largely determined by investment performance and to a lesser extent philanthropy. Three-year average gift revenue equated to a solid \$29 million in fiscal 2023. Inclusive of the 10.1% endowment return in

fiscal 2023, the university's three- and five-year returns were 10.2% and 6.4%. The endowment is managed by an internal investment office and has a relatively liquid asset allocation with 70% of holdings in public equities and fixed income.

Leverage

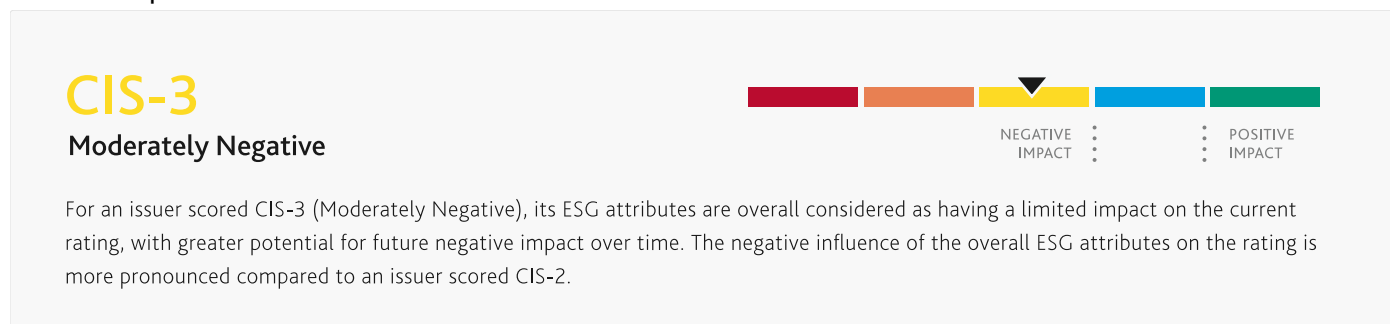
Adjusted debt will remain elevated relative to scale and cash flow. Inclusive of the \$30 million of new bonds to finance various capital renewal initiatives, total pro forma adjusted debt to operating revenue was 1.2x in fiscal 2023. With the narrower operations and added leverage, pro forma debt to EBIDA increased to an elevated 8.6x. Total adjusted debt consists mainly of \$220 million of pro forma bonds and a \$95 million debt-like obligation related to the long-term energy services contractual agreement. Similar to the existing bonded debt, the Series 2024 bonds will be fixed-rate and structured to wrap around outstanding debt obligations to maintain level annual debt service payments. While capital spending has consistently been above depreciation, the university has an elevated age of plant at 19.5 years. Future capital needs will be addressed using a variety of financing sources, including additional public-private partnerships.

ESG considerations

Duquesne University of the Holy Spirit, PA's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 4

ESG Credit Impact Score



Source: Moody's Investors Service

Duquesne University's **CIS-3** is largely driven by its exposure to social risks. Its solid wealth and liquidity coupled with its effective institutional leadership help mitigate ESG risks.

Exhibit 5

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

The **E-2** incorporates the moderate exposure to environmental risks including tropical storms and heat stress. Strong risk management practices limit the likelihood of material operational disruption or budgetary impact. Environmentally focused policies are embedded through all facets of the university including specific efforts to reduce waste, conserve energy, bolster research and incorporate academic programming geared towards sustainability. The long-term energy services agreement with a private partner allows for improved reliability and efficiency of the utility system, and reduction of waste. The university continues to make steady progress towards reducing carbon emissions.

Social

The **S-3** incorporates its exposure to demographic, customer relations, and human capital risks. The high reliance on students from the Mid-Atlantic region provides for considerable credit risk by constraining earned revenue growth and pricing power. Favorably, the university has a mission that is aligned with positive social impact through education, research, and service. Like many private universities, Duquesne is highly reliant on student charges, partly due to its moderate donor support and endowment resources per student. Solid graduation rates, good program diversity, and strong postgraduate earnings relative to median debt levels positively factor into the customer relations score. Human capital risks are derived from the labor rigidity introduced by the high number of tenured faculty and moderate collective bargaining exposure. However, its relatively higher use of part-time adjunct faculty provides for better flexibility to manage payroll expenses compared to sector peers.

Governance

The **G-2** reflects its track record of good financial oversight and clear-eyed decision making. Conservative budgeting will support longer-term operational stability despite the constrained revenue growth. Sound financial strategy is reflected in the university's manageable leverage, conservative debt structure, and strong liquidity position. While introducing some organizational structure risk, the monetization of certain non-core capital assets serves the long-term strategic goals of the university and significantly bolstered flexible reserves. Like most of the sector, the large composition of the board including alumni and key donors introduces moderately negative board structure risks. Favorably, the board members have good industry diversity and experience along with a demonstrated ability of effectively fulfilling its broad oversight responsibilities. Governance powers of the board are granted by the Members of the Corporation consisting solely of clerical members.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.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 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 6

Duquesne University

Scorecard Factors and Sub-factors	Value	Score
Factor 1: Scale (15%)		
Adjusted Operating Revenue (USD Million)	300	A
Factor 2: Market Profile (20%)		
Brand and Strategic Positioning	A	A
Operating Environment	A	A
Factor 3: Operating Performance (10%)		
EBIDA Margin	9%	Baa
Factor 4: Financial Resources and Liquidity (25%)		
Total Cash and Investments (USD Million)	665	Aa
Total Cash and Investments to Operating Expenses	2.2	A
Factor 5: Leverage and coverage (20%)		
Total Cash and Investments to Total Adjusted Debt	2.0	A
Annual Debt Service Coverage	1.9	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.

Source: Moody's Investors Service

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