MOODY'S INVESTORS SERVICE

CREDIT OPINION
14 August 2023

Send Your Feedback

Contacts

Melissa Nicandri +1.212.553.3890
Associate Lead Analyst
melissa.nicandri@moodys.com

Michael Osborn +1.212.553.7799
VP-Senior Credit Officer
michael.osborn@moodys.com

Debra Roane +1.212.553.6899
VP-Sr Credit Officer
debra.roane@moodys.com

CLIENT SERVICES

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

Gustavus Adolphus College, MN

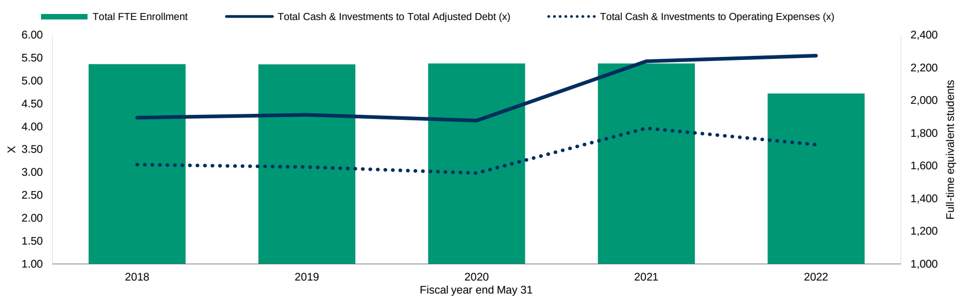
Update to credit analysis

Summary

Gustavus Adolphus College's (A3 stable) credit profile reflects its favorable wealth profile and consistent operating performance despite significant student market challenges. Although enrollment has declined 8% over five years, EBIDA margins have remained solid, reaching 16% in fiscal 2022 though typical margins are around 12%. The college's wealth profile remains a credit strength, with total cash and investments growing to around $330 million in fiscal 2022, an increase of about 40% in five years. Favorable donor support has aided endowment growth and reduced the need for additional borrowing to fund capital projects. As a result, the college's leverage profile is manageable. Offsetting factors include the highly competitive Minnesota private college environment, as reflected in a high tuition discount rate, weakening matriculation, and stagnant net tuition revenue.

Exhibit 1

Balance sheet strength supports credit quality amid enrollment declines



Source: Moody's Investors Service

Credit strengths

» Strong growth in cash and investments of about 40% over the past five years and liquidity of 324 monthly days cash on hand for fiscal 2022

» Sound philanthropic support with $8,625 three year average gifts per student well above the A rated median of $4,734 in fiscal 2022

» Manageable leverage with total cash and investments covering total adjusted debt by 5.5x in fiscal 2022

» Solid operating performance despite tuition revenue challenges with typical EBIDA margins in the 11-12% range

Credit challenges

» Multi-year period of declining to flat net tuition revenue with expense containment required to preserve operating performance

» Very high revenue reliance on student charges at around 75% in a typical year

» Highly competitive Minnesota student market, evidenced by rising tuition discounting

Rating outlook

The stable outlook reflects expectations of at least stable enrollment in fall 2023 and maintenance of EBIDA margins in the 11-12% range in fiscal 2023 and beyond.

Factors that could lead to an upgrade

» Substantial increase in total cash and investments

» Significantly strengthened student demand with sustained growth of enrollment and net tuition revenue

Factors that could lead to a downgrade

» Enrollment declines in fall 2023 and beyond leading to weakening of net tuition revenue beyond expectations

» Inability to maintain at least 10% EBIDA margins

» Material decline in financial reserves or unrestricted liquidity

» Additional borrowing in absence of stronger EBIDA margins

Key indicators

Exhibit 2
Gustavus Adolphus College, MN

	2018	2019	2020	2021	2022	Median: A Rated Private Universities
Total FTE Enrollment	2,222	2,220	2,225	2,225	2,042	5,320
Operating Revenue ($000)	85,034	86,246	86,302	86,552	95,941	239,809
Annual Change in Operating Revenue (%)	1.3	1.4	0.1	0.3	10.8	10.7
Total Cash & Investments ($000)	263,924	264,945	253,674	328,081	329,606	529,788
Total Adjusted Debt ($000)	62,931	62,241	61,422	60,492	59,422	194,248
Total Cash & Investments to Total Adjusted Debt (x)	4.2	4.3	4.1	5.4	5.5	2.9
Total Cash & Investments to Operating Expenses (x)	3.2	3.1	3.0	4.0	3.6	2.4
Monthly Days Cash on Hand (x)	297	348	317	398	324	417
EBIDA Margin (%)	13.0	12.3	13.3	17.3	16.3	16.2
Total Debt to EBIDA (x)	5.7	5.8	5.3	4.0	3.8	4.9
Annual Debt Service Coverage (x)	3.2	3.1	3.3	4.1	4.2	3.3

Source: Moody's Investors Service

Profile

Gustavus Adolphus College, founded in 1862, is a private, coeducational liberal arts college affiliated with the Evangelical Lutheran Church in America and with a Swedish heritage. Located in St. Peter, Minnesota, about 70 miles southwest of the Twin Cities, the college enrolled 2,042 full-time equivalent students in fall 2022 and generated $96 million in total operating revenue in fiscal 2022.

Detailed credit considerations

Market profile: significant student market challenges due to highly competitive Minnesota market

The student market will remain challenging, but management expects focused program management and adjustments to aid enrollment stabilization in the coming years. The college continues to evaluate its programmatic offerings to determine how best to meet student demand. The expansion of a nursing program and sports management minor are two recent additions, and the college is still assessing program and course offering reductions.

The Minnesota private college market is highly competitive, evidenced by Gustavus' weakening selectivity and matriculation yields. About three quarters of the college's students are from Minnesota and a 16% decline in the fall 2022 starting class further highlights these challenges. The college is currently expecting an incoming class of 560 students for fall 2023 Favorably for attracting students, the college meets full financial need for tuition for families in Minnesota with income under $80,000. However, this has increased the college's overall tuition discount rate to 62% and contributes to declines in net tuition revenue.

Operating performance: consistent operating performance despite stagnant tuition revenue due to careful expense management

Despite ongoing student market challenges, Gustavus will continue generate at least break-even operating performance. Fiscal years 2021 and 2022 saw slightly higher than average EBIDA margins around 16%, in part because of federal pandemic relief aid, and the college expects a return to historical levels in the 11-12% range beginning in fiscal 2023. Net tuition revenue has been largely stagnant, with about 1% growth over five years. Management's expectations of enrollment stability in fall 2023 and beyond would, if realized, help stabilize net tuition revenue. Expense containment efforts and conservative budgeting will help to offset inflationary pressures. Careful consideration of open faculty positions as well as program expenses and adjustments will continue to aid operating results through a challenging revenue and expense environment.

Wealth and liquidity: steadily growing wealth is a key credit strength

Gustavus' wealth will continue to underpin credit strength. Over the last five fiscal years total cash and investments grew about 40%, reaching nearly $330 million in fiscal 2022, a result of solid investment returns and consistently strong donor support. Although donor support is lower than the fiscal 2019 peak of $42 million, three-year average gifts per student of $8,625, which doesn't include fiscal 2019 giving, is higher than peers and evidences Gustavus' history of strong giving. The college recently concluded a comprehensive campaign, achieving $228 million in commitments and exceeding its goal. Management anticipates reporting further wealth growth in fiscal 2023.

The college's investment committee has an allocation target of 40% for private equity, which was exceeded in fiscal 2022 due to tremendous returns in the private portfolio. This exposure is elevated for an endowment of its size. The college anticipates a natural rebalance by fiscal 2027 to reach the 40% target.

Liquidity

Liquidity at the college remains solid, with $73.5 million in monthly liquidity translating to 324 days cash on hand, though this is somewhat below the A-rated peer median of 417 days. The college also has a $10 million line of credit with no plans to draw on it.

Leverage: manageable debt burden remains a credit strength

Gustavus' debt burden will decline with continued amortization and no near-term borrowing plans. Total cash and investments provided very strong coverage to total adjusted debt of 5.5x in fiscal 2022, much higher than peers. Debt service coverage is historically solid, with 3.9x coverage in fiscal 2022, boosted somewhat by federal pandemic relief aiding EBIDA margins. Though some softening of coverage is expected in fiscal 2023, coverage will remain strong especially as the college does not have major capital plans and will fund small projects with reserves.

Legal security

The college's bonds are unsecured general obligations of the college. There are no debt service reserve funds.

Debt structure

All of the college's debt is fixed rate with regular amortization. Debt service is around $3.8 million per year, which provides for budget predictability.

For fiscal 2022, the college met its financial covenants, with a 5.6x liquidity ratio (1.25x minimum) and 3.9x debt service coverage (1.25x minimum).

Debt-related derivatives

None.

Pensions and OPEB

Gustavus has modest employee benefit obligations related to its defined contribution plan. Contributions comprise 2.5% of operating expenses for fiscal 2022. The college also offers a post-employment medical plan. Gustavus' post-retirement medical plan cost for fiscal 2022 was a manageable $59,000 and the associated liability was a very low $1.2 million.

ESG considerations

Gustavus Adolphus College, MN's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 3
ESG Credit Impact Score

CIS-3
Moderately Negative

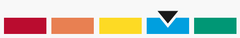
For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Gustavus Adolphus' **CIS-3** indicates that ESG risks have a minimal impact on the credit rating now with a potential for greater impact over time. ESG risk exposure reflects significant exposure to social risks, which are partially mitigated by favorable governance.

Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL
E-2
Neutral-to-Low



SOCIAL
S-4
Highly Negative

GOVERNANCE
G-2
Neutral-to-Low

Source: Moody's Investors Service

Environmental

Environmental risks (**E-2**) reflect minimal likelihood of material disruption due to physical climate risks. The city of St. Peter, in which Gustavus Adolphus is located, is subject to a high risk of water stress with a manageable impact on college operations.

Social

Gustavus Adolphus (**S-4**) faces significant demographic and societal trends risks reflecting the slow projected growth in high school graduates and considerable competition in Minnesota privates and publics which diminishes prospects for growth in enrollment. Strategic efforts to renew academic programs and improve marketing has helped stabilize enrollment, although increased financial aid has also been employed. Customer relations with key stakeholders include very good student outcomes and strong donor support. An exposure to human capital risks reflects the impact of the University's relatively high percentage of tenured faculty and the cost of specialized personnel on its expense structure.

Governance

Gustavus Adolphus' governance risks (**G-2**) reflect the college's sound fiscal management and track record. Financial strategy and risk management incorporate careful management of expenses, employing favorable budgeting practices include budgeting for depreciation, debt service and an operating contingency. A conservative approach to capital planning ensures preservation of the college's financial reserves while periodic process of updating and refining of programs including three year periodic reviews of all programs maintains the relevance of programs. Like most of the sector, the large approximately 30-member composition of the board including alumni and key donors introduces some board structure risks.

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 5

Gustavus Adolphus College

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	96	Baa
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	Baa	Baa
	Operating Environment	A	A
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	16%	A
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	330	A
	Total Cash and Investments to Operating Expenses	3.6	Aa
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	5.5	Aa
	Annual Debt Service Coverage	4.2	Aa
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	A	A
	Scorecard-Indicated Outcome		A2
	Assigned Rating		A3

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

REPORT NUMBER 1377635

CLIENT SERVICES

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

MOODY'S INVESTORS SERVICE