

CREDIT OPINION

26 March 2018

Rate this Research >>

Contacts

Diane F. Viacava +1.212.553.4734
 VP-Sr Credit Officer
 diane.viacava@moodys.com

Susan I Fitzgerald +1.212.553.6832
 Associate Managing Director
 susan.fitzgerald@moodys.com

Benjamin Howard-Cooper +1.212.553.3781
 Associate Lead Analyst
 benjamin.howard-cooper@moodys.com

CLIENT SERVICES

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

Loyola University of Chicago, IL

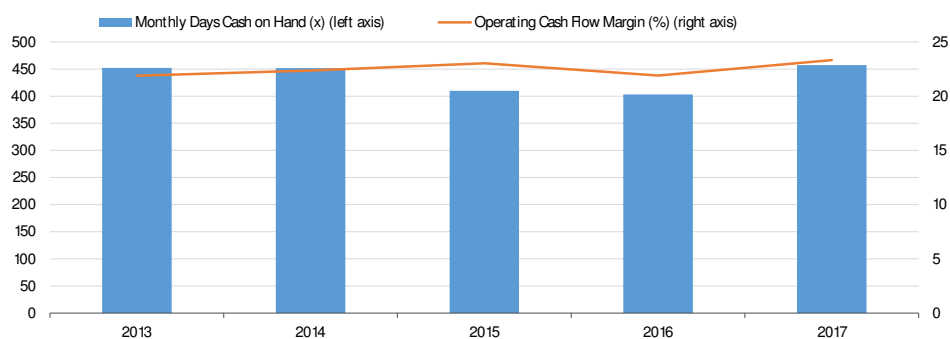
Update to credit analysis following upgrade to A1

Summary

[Loyola University of Chicago's](#) (Loyola or LUC, A1 stable) very good credit quality reflects consistently strong operations driving growth in already excellent wealth and liquidity. The robust cash flow provides the funds for the rapid debt repayment reducing currently high debt. Although the quickly reducing debt improves Loyola's leverage profile, it will contribute to slower growth of cash and investments. Loyola's comparatively large scale and well established demand as a Jesuit urban comprehensive university in Chicago additionally support its favorable credit profile. The university operates in a highly competitive market, reflected in comparatively low yield rates on accepted first year students and contributing to only modest ability to raise tuition.

On March 23 we upgraded Loyola to A1, with a stable outlook.

Exhibit 1

Robust cash flow contributes to strong liquidity


Source: Moody's Investors Service

Credit strengths

- » Strong operating cash flow through excellent budgeting and fiscal oversight
- » Excellent unrestricted monthly liquidity of over 450 days cash
- » Rapid debt repayment with no near-term debt plans
- » Well-established demand as a large Jesuit Chicago urban comprehensive university

Credit challenges

- » Expected slower cash and investment growth through 2023 to fund debt pay-down
- » Fierce competition resulting in some enrollment volatility
- » Relatively high leverage, with debt-to-revenue and spendable cash and investment cushion comparatively lower than peers
- » Fundraising lower than peers

Rating outlook

The stable outlook reflects expectations of continued strong operating cash flow sufficient to maintain good liquidity even with large debt repayments, with generally stable student demand and tuition revenue growth.

Factors that could lead to an upgrade

- » Substantial growth in cash and investments
- » Revenue diversification, particularly from increased philanthropy
- » Strengthening of brand and reputation, resulting in further improvement in student demand and tuition pricing power

Factors that could lead to a downgrade

- » Weakened operating cash flow in light of large upcoming principal repayments
- » Deterioration in student demand, given a 75% revenue reliance on student charges
- » Material debt issuance if not offset by expected revenue and reserve growth

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

LOYOLA UNIVERSITY OF CHICAGO, IL

	2013	2014	2015	2016	2017	2017 Sensitivity w/ 2018 principal repayment	Median: A Rated Private Universities
Total FTE Enrollment	14,650	14,614	14,845	15,186	15,446	15,446	4,526
Operating Revenue (\$000)	532,401	561,001	583,457	581,080	603,988	603,988	196,259
Annual Change in Operating Revenue (%)	3.5	5.4	4.0	-0.4	3.9	3.9	3.4
Total Cash & Investments (\$000)	781,208	842,548	805,619	797,834	907,160	907,160	359,875
Total Debt (\$000)	572,644	546,432	510,523	476,219	440,324	376,751	132,260
Spendable Cash & Investments to Total Debt (x)	1.1	1.3	1.3	1.3	1.7	2.0	1.6
Spendable Cash & Investments to Operating Expenses (x)	1.4	1.4	1.3	1.2	1.4	1.4	1.3
Monthly Days Cash on Hand (x)	452	452	410	403	457	457	321
Operating Cash Flow Margin (%)	21.9	22.4	23.0	21.9	23.3	23.3	15.3
Total Debt to Cash Flow (x)	4.9	4.4	3.8	3.7	3.1	2.7	4.6
Annual Debt Service Coverage (x)	5.2	4.8	2.6	2.4	2.7	2.7	3.0

2017 Sensitivity reflects principal repayment to date and full repayment of 2012 term loan

Total FTE Enrollment is fall enrollment of indicated year.

Source: Moody's Investors Service

Profile

Loyola University of Chicago is a private Jesuit, Catholic comprehensive multi-campus university. With headcount of nearly 17,000, it has a broad program offering for undergraduate, graduate and professional degrees, including medicine, law and nursing. In fall 2015 it launched Arrupe College, a two-year associates degree program for Chicago high school graduates, with the first graduating class in August 2017.

Detailed credit considerations

Market profile: large Jesuit urban university with gradually growing enrollment in highly competitive Chicago market

Loyola University of Chicago will see generally stable student demand and tuition revenue growth from its well-established position as a large [Chicago](#)-based Jesuit comprehensive university. LUC reported fall 2017 enrollment of over 15,400 full-time equivalent (FTE) students, up nearly 6% since fall 2014 and nearly 2% from the prior year. Nearly 30% of enrollment are graduate and professional students. Loyola has diversified program offerings, including medicine, nursing and law across the levels and include adult completion and certificate programs.

A critical strategic initiative is the expansion of its existing global footprint through growing study abroad and international students by leveraging the Jesuit global educational network. Also recognizing its mission of access and affordability, LUC launched the Arrupe College, a two year associate degree-granting college for under-served urban Chicago high school students who require substantial financial aid and academic support. After graduation, Arrupe students could transfer to LUC or another institution to complete their bachelor's degree. Additionally, LUC has expanded its online offerings for adult degree completion programs.

LUC's relationship with [Trinity Health Credit Group](#) (Trinity, Aa3 stable) is important as part of its strategy. In 2011 Trinity acquired [Loyola University Health System](#) (LUHS) from the university. LUC retained its medical and nursing schools, both located adjacent to LUHS' campus. As a condition of sale, Trinity paid \$75 million toward LUC's Center for Translational Research and Education (CTRE) on the Health Sciences Campus that opened in 2016. Trinity also pays annual academic support payments adjusted annually for inflation, amounting to over \$23 million in both fiscal 2016 and 2017. The university and Trinity collaborate on academic programs and campus facilities planning.

Operating performance: consistently strong cash flow amply cushioning debt service

With its excellent budgeting practices and oversight, Loyola is expected to continue to demonstrate strong cash flow generation providing good coverage of debt service. The fiscal 2017 cash flow margin of 23% was in the range of the prior four years, and provided a good 2.7x debt service coverage. LUC expects fiscal 2018 operations and cash flow to remain in a similar range.

Recognizing the highly competitive market and resulting pressures on net tuition revenue growth, the university is aggressively reviewing expenses to reduce its fixed expenses. It launched a review process with working groups to recommend ways to remove \$8 million from its expense base and to seek new revenue opportunities.

Wealth and liquidity: good balance sheet reserves and strong liquidity

Loyola University of Chicago's cash and investments will remain satisfactory relative to its debt and operations. Growth slowed recently from the last phase of its capital spending plans and debt repayment but resumed growth in fiscal 2017. Total cash and investments of \$907 million are up from the recent low of \$798 million in fiscal 2016. Spendable cash and investments likewise grew to \$745 million. Favorably, spendable cash and investments, including temporarily restricted funds, represent a substantial 82% of the total, providing the university good flexibility.

Fundraising is expected to grow as the university, led by the president, invests in its advancement function. The university hired a new Senior Vice President for Advancement with a strong background and experience from leading US universities. Fiscal 2017 annual gift revenues of nearly \$22 million is up from \$19 million the prior year. Currently not in a campaign, LUC is contemplating the launch of a campaign for its sesquicentennial campaign in 2020.

LIQUIDITY

Loyola's unrestricted liquidity will remain strong to provide an ample cushion for its debt and other commitments. Fiscal 2017 unrestricted monthly liquidity was \$601 million, translating to 457 days cash. This is up from the low of \$520 million in fiscal 2016 following the completion of its capital spending and beginning of large principal payments.

Leverage: moderately high but declining leverage from rapid debt amortization and growth in cash and investments

Already improving, LUC's debt load will continue to lessen from significant debt repayment through 2023. Spendable cash and investments cushion debt 1.7x in fiscal 2017, up from 1.3x from fiscal 2016 resulting from debt repayments and the growth in investments. The university will repay \$173 million of principal through fiscal 2023 from cash flow and cash reserves and has no debt plans.

The university completed its total \$800 million capital program funded by debt, gifts and internal sources. Its material capital investment should result in improved competitiveness and strategic positioning. LUC completed and opened its CTRE in Maywood and the School of Business building at the Water Tower Campus located in Chicago's "Gold Coast". Loyola is conducting campus master planning at its campuses, including its Health Sciences campus but has no current significant capital plans.

DEBT STRUCTURE

All of LUC's long-term debt is fixed rate. It has a \$74 million commercial paper program, with payments of the maturing commercial paper supported by a LOC from [PNC Bank, N.A.](#), terminating in April 2019. There is a debt service coverage covenant of 1.2x in the agreement, with LUC reporting 2.25x for fiscal 2017. If there is a draw under the LOC, no repayment is required until one year following the draw, when LUC can choose to repay a draw in quarterly payments over a three-year period. The repayment schedule and over 800% monthly liquidity coverage provide good support of the university's demand debt.

DEBT-RELATED DERIVATIVES

None

PENSIONS AND OPEB

Loyola has a moderate expense burden and exposure to retiree benefits, with fiscal 2017 expenses about 5% of operating expenses. LUC froze its defined benefits plan, with a \$34 million unfunded liability that is 63% funded for fiscal 2017. It contributed \$22 million to its defined contribution plan in the year. LUC provides a defined benefit retiree healthcare plan with a \$45 million liability for fiscal 2017. Effective July 1, 2004 LUC changed the plan to provide new retirees after 2006 an account-based retiree medical subsidy.

Governance and management: university leadership provides strong fiscal oversight

Loyola University of Chicago's platform of good management practices will lead to continued strong operations and good balance sheet reserves. Management and the board employ favorable practices for budgeting and financial oversight. The university budgets for fully funded depreciation and debt service, as well as for a surplus without gifts or the endowment draw. Effective fiscal 2018 the budget is on a rolling three year planning cycle. LUC was a national leader in generating profit and loss analyses for its individual schools and auxiliaries and for using faculty teaching productivity measures and responsibility center accounting.

The university installed its first lay president in 2016. Following her installation, the president appointed new people in leadership positions, most from within the university. The leadership team continues to implement the "Plan 2020" strategic plan, achieving notable success in fundraising and the launch of its Arrupe College.

LUC's Board of Trustees is comprised of 40 sitting members, each elected to three-year terms. Board membership includes regional and national business management, members of the Society of Jesus and a representative of Trinity Health System.

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJJK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJJK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJJK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

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