MOODY'S RATINGS

CREDIT OPINION
27 January 2025

Update

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RATINGS

Concordia University, Quebec

Domicile	Canada
Long Term Rating	A1
Type	Senior Unsecured - Dom Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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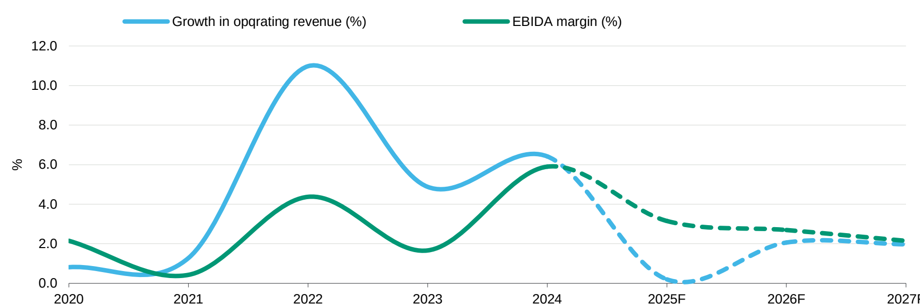
Concordia University, Quebec (Canada)

Update to credit analysis

Summary

The credit profile for Concordia University (A1 negative) reflects the university's strategic position, adequate level of total wealth and important share of debt serviced by the Province of Québec (Aa2 stable). These credit strengths are offset by our forecast of an extended period of operating pressure driven by the province's tuition policy effective Fall 2024, which reduce Concordia's competitiveness relative to other domestic peers for Canadian students and changes to provincial operating grants which lower total revenue accruing to the university from international students. Concordia also faces a high level of uncertainty on enrolment, driven by changes to immigration policies, primarily by the federal government, making planning difficult for the next 2-3 years.

Exhibit 1
Unfavourable regulations on tuition and international student visas will restrict operating revenue growth, leading to weaker EBIDA margins



Sources: Concordia University and Moody's Ratings

Credit strengths

» Very good brand and strategic positioning supported by strong market position and high quality of management

» Adequate level of total wealth supports long-term planning

Credit challenges

» Tuition policy change will lead to operating pressures and stressed EBIDA margins

» International enrolment will face challenges due to federal and provincial immigration changes

» Weak leverage and coverage notwithstanding presence of provincial debt service subsidies

» Significant share of revenue tied to student levels

Rating outlook

The negative outlook reflects the downside balance of risk to demand and resulting pressure on Concordia's future revenue profile. Concordia faces downward risks attributed to government controlled factors on tuition setting and policies for international students. This may lead to weaker EBIDA and annual debt service coverage than currently forecasted.

The negative outlook also captures the execution risk facing Concordia to adhere to its budgetary redress plan. As Concordia undertook several important cost savings measures approximately 8 years ago, the university's operations are already relatively efficient. Finding the necessary additional cost savings to align with lower revenue will be difficult. Should Concordia fail to adhere to its plan, it may be subject to a loss of conditional grants provided by Quebec which would lead to additional budgetary pressure.

Factors that could lead to an upgrade

Given the negative outlook, an upgrade is unlikely. The outlook could change to stable if student demand is likely to be durably stronger than currently forecasted by Moody's, leading to evidence that EBIDA margins and annual debt service will not fall below levels currently forecasted. Budgetary actions undertaken by Concordia to achieve stronger financial health would likewise lead to a stable outlook.

Factors that could lead to a downgrade

The rating could be downgraded if student demand is weaker than forecasted by Moody's, leading to increased budgetary pressure and weaker EBIDA and annual debt service coverage than currently forecasted. Additionally, downward pressure could arise if Concordia is unable to execute a budgetary redress plan mandated by the province resulting in a continuation of negative EBIDA margins longer than Moody's currently forecasts. A downgrade could also arise if the operating environment were to weaken further, which could occur if the province is unable to achieve its goals following the recent policy changes, namely a strengthening of the use of French on the Island of Montreal and increased distribution of non-Quebec student tuition revenue across the whole provincial university sector, and therefore enacts additional changes that are detrimental to Concordia.

Key indicators

Exhibit 2
Concordia University
Year ending 30 April

Key Indicators	2022	2023	2024	2025F	2026F	2027F
Operating revenue (CAD millions)[1]	645.9	677.4	720.8	721.2	736.1	750.6
EBIDA margin (%)	4.4	1.7	5.9	3.2	2.7	2.1
Total cash and investments (CAD millions)	358.6	414.0	455.4	409.3	426.2	430.3
Total cash & investments to Total adjusted debt (x)	0.4	0.4	0.5	0.4	0.4	0.4
Total cash & investments to operating expenses (x)	0.5	0.5	0.6	0.5	0.5	0.5
Annual debt service coverage (x)	0.4	0.1	0.5	0.2	0.2	0.1

[1] Revenue is net of scholarship expense
Sources: Concordia University, Moody's Ratings

Detailed credit considerations

Baseline credit assessment

The credit profile of Concordia University, as expressed by its A1 rating, combines a BCA for the university of a3, and a high likelihood of support from the Province of Québec in the event that the university faced acute liquidity stress.

Very good brand and strategic position supported by strong market position and high quality of management

Concordia's very good brand and strategic profile reflects its unique blend of program offerings which continues to support student demand, in contrast to most other Québec universities which face pressure from declining demographics of domestic students. Concordia is one of only two major English language universities in the francophone province of Québec, a unique market niche which bolsters its market position, although this may be under pressure following Québec's announced tuition policy change. The university's programming attracts non-traditional students such as mature students attracted to professional training rather than traditional curriculum, which also helps differentiate Concordia from other peers. The reputation of the university is also boosted by the John Molson School of Business which routinely ranks among the top 10 in Canada and within the top 100 globally.

The governance and management of the university makes ample use of forward-looking plans and detailed policies which add to the transparency of the university's operations. Despite weak leverage metrics, the university has robust debt policies which it adheres to, regularly benchmarking against peers. The university has a track record of navigating difficult operating environments, including through the pandemic as well as previous periods of restrictive government funding, which provides support to our assumption that it will navigate through upcoming operating pressure and minimize long lasting impacts.

The university is also a leader on environmental, social and governance (ESG) considerations. This includes issuing a sustainable bond in 2019, the first ever by a Canadian university. In October 2020 the university launched its Sustainability Action Plan which outlines Concordia's goals to engage on various sustainable factors including positioning its research towards sustainability issues and fostering sustainability concepts in the curriculum of programs. In 2022, Concordia became the first Canadian university with a sustainability-linked loan which ties a margin adjustment mechanism on an existing credit facility to the university's alignment of its investment portfolio to sustainable and impact investments.

Adequate level of total wealth supports long-term planning

Concordia maintains an adequate level of total wealth consistent with similarly rated peers and despite the operating challenges we forecast for Concordia, we do not expect this level to materially change over the next 2-3 years. Concordia will provide increased scholarships to offset some or all of the increase in tuition for Canadian (non-Québec) students but this will not lead to a decrease in total wealth.

Total cash and investments measured CAD455.0 million in 2023-24, up 57% from April 2020 highlighting management's solid performance during the pandemic in protecting cash. This has resulted in modest improvements as well in the coverage of operating expenses by cash and investments over the same time (rising to 0.58x from 0.45x). The growth of the university's overall wealth over the past several years supports its commitment to long term planning and strategic investment.

More than half of Concordia's total wealth is in spendable cash, with a minority in externally restricted funds. This is a result of Concordia's relatively smaller alumni base and endowment profile. Concordia is currently undertaking a multi-year fundraising campaign with a goal of CAD250 million, the largest campaign in the university's history. Funds from this campaign will go towards projects that support nine different strategic initiatives supporting the university's “next generation” position.

Supporting its wealth management, Concordia has a robust investment policy with clear guidelines on mix of assets, accessibility of funds, allocation alignment with strategic priorities and risk tolerance.

Tuition policy change will lead to operating pressures and stressed EBIDA margins

Québec's current tuition policy and funding framework came into effect in Fall 2024 which, in our view, contributes to operating pressures faced by Concordia. We forecast a weakening of the university's EBIDA margin to around 2-3% and annual debt service below 0.25x over the next 3 years. As per provincial policies, universities with operating deficits must submit a budgetary redress plan to return to balanced budgets within 5 years. Moody's believes that Concordia's management will succeed to implement such a plan, but the 5 year period ending 2028-29 will result in a prolonged period of weak operating results nonetheless.

Unlike other provinces, Québec sets tuition equally for all universities based on residence of the student. Tuition for Canadian (non-Québec) students will rise to CAD12,000 annually from the previous average of CAD9,000, reducing the price-competitiveness of Concordia. Additionally, the government's public acknowledgment that these changes are designed to limit the use of English within the Greater Montréal region, as seen by the exemption the province provided to another English-language university located elsewhere in the province, therefore raises concerns about Québec's willingness to host non-Francophones in Montréal, also negatively impacts student demand.

We anticipate Concordia's enrolment for 2024-25 to decline 3.3% relative to the previous fiscal year, an improvement compared to our previous forecast when the provincial tuition policy change was initially announced. This was due to growth in Québec students and the use of scholarships to offset the impact of the domestic tuition hikes. Despite these results, we note that the continued plan to offer scholarships to offset the tuition increase for Canadian (non-Québec) students could be unsustainable.

Additionally, as part of change in the funding framework, Québec claims a portion of international student tuition while simultaneously providing operating grants to Concordia, both of which it previously did not do for de-regulated programs. However, our estimate is that the net change relative to the previous funding framework is a loss about CAD5,000 per international student for Concordia. This, along with our assumption that Concordia will face a decline in international students due to the above mentioned concerns on the province's openness to non-Francophones, adds to further downward pressure on revenue. We anticipate that Concordia will look for cost savings, in an effort to rightsize the university, should enrolment fall. However, cost savings for universities in general, where wages account for the majority of costs and where labour is highly unionized, may be difficult to achieve. We also note that Concordia undertook a cost savings review less than a decade ago, and therefore has already streamlined several cost functions which will challenge the university's ability to implement more. The university also undertook the exceptional decision to initiate legal proceedings against the province in an attempt to overturn the policy change related to tuition increases and change in funding model for international students.

A proposed provincial requirement that students who first enrol in 2025-26 must take a French proficiency test upon graduation will also lead to additional costs for Concordia as it develops and operates the resulting necessary courses. This requirement will also likely lead to further downward pressure on student demand, particularly among students who feel they will never require the use of French post-graduation.

International enrolment will face challenges due to federal and provincial immigration changes

The federal government introduced several immigration policy changes throughout 2024 designed specifically to reduce international student enrolment in Canada, including a cap on internationals students, and adverse changes in the post-graduation work program. The federal cap targeted a 35% reduction in study permits for incoming undergraduate students in 2024 with a further 10% reduction in 2025 with the affected group expanded to include graduate level students. The provincial government also tabled a bill that reduces international students within the province. While the provincial bill has no cap on the number of international students, Québec will have the ability to enrol students based on its government priorities, thereby reducing the universities' ability to select their student pool.

These policy changes impact Canada's brand as a destination for higher education, particularly universities such as Concordia which rely on international students for enrolment and revenue growth. To reduce the impact on enrolment, Concordia increased recruitment efforts and made early offers to students. While the selectivity ratio could face pressure as the institution potentially admits more students in response to a decrease in enrolment, we don't expect a material decline from its current selectivity levels. Concordia faces the risk that should substantial enrolment declines occur, it may fundamentally impact certain course offerings and student activities which may negatively impact Concordia's strategic profile, adding negative pressure on enrolment.

Weak leverage and coverage notwithstanding presence of provincial debt service subsidies

Concordia posts weak leverage metrics relative to similarly rated peers. We anticipate that these metrics will deteriorate further over the next 4 years as operating margins will weaken and the university may use reserves to mitigate revenue pressure.

Total cash and investments provided 0.5x coverage of total adjusted debt and 0.6x coverage of operating expenses in 2023-24. These levels remain broadly unchanged since 2019. Given the weak operating performance anticipated over the next 4 years, growth in total cash and investments will be limited to investment returns and fundraising efforts net of any uses to support operations. Additionally, we do not expect debt to materially increase over the next 2-3 years, as provincial funding for capital projects continues to increase at a pace that suits Concordia's growth plans. However, a risk persists that the university could lower its planned uses of liquidity (to protect liquidity in an uncertain environment) to fund capital and issue higher than expected debt. This could lead to weaker leverage metrics.

Annual debt service coverage has historically been low for Concordia, averaging 0.2x over the last 5 year period from 2019-20 to 2023-24. With our forecast of low EBIDA margins, we project annual debt service coverage to be at similar levels over the next 3 years.

Our credit considerations partially look through this low coverage due to the presence of material provincial debt subsidies which are not taken into account in our coverage metric. The province of Québec provides debt service subsidies for over half of Concordia's long-term debt (in 2023-24). Not requiring to service this debt also eases the concern on Concordia's low EBIDA margin, as the university does not need to generate strong operating outcomes to cover significant debt service. Another factor that we take into account is that the majority of debt that Concordia is responsible for is largely held in long-term, bullet bonds with an earliest maturity of 2039 which also decreases the risk of poor debt service coverage at present. Nonetheless, even taking all these factors into account, Concordia's debt service coverage is still considered to be weaker than similarly rated peers.

Significant share of revenue tied to student levels

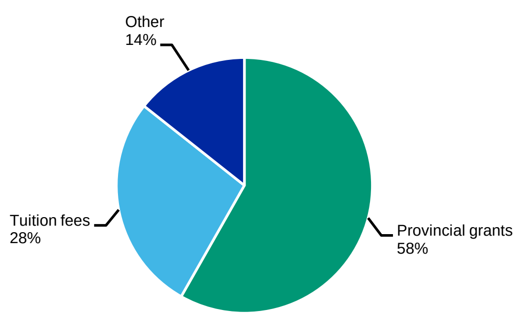
Concordia faces a challenge given its high share of revenue from per student sources (Exhibit 3), which exposes the university's financial health even further to the tuition policy change and expected enrolment decline than other peers.

Enrolment trends in recent years have contributed to the majority of Concordia's revenue performance given both tuition and government funding are based on per student basis. Without diversification away from enrolment-based factors, Concordia will be pressured to match expenditure changes to student level dynamics which will be a challenge as expense flexibility is reduced given past measures already introduced to become more efficient over the past period of budgetary deficits. Salaries and benefits account for 70% over Concordia's expenses and expose the university to risk of inflationary pressure from its human capital.

Exhibit 3

Given their combined share of 86% of operating revenues, enrolment based revenue from provincial grants and tuition fees present concentration risk for Concordia

Share of operating revenue 2023-24



Source: Moody's Ratings

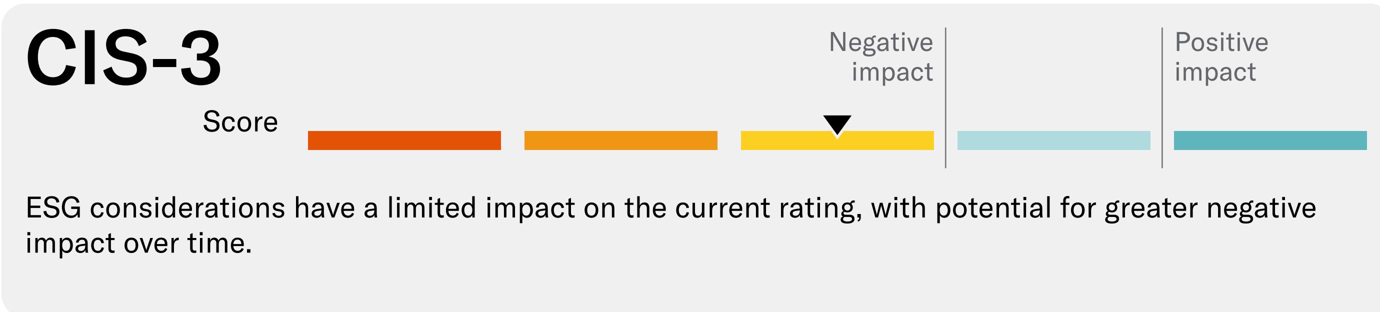
Extraordinary support considerations

Moody's assigns a high likelihood of extraordinary support from the Province of Québec (Aa2 stable) reflecting Moody's assessment of the risk posed to the province's financial reputation if the university were to default, and because of the university's strategic importance to the province's key policy goal of improving education in Québec.

ESG considerations

Concordia University, Quebec's ESG credit impact score is CIS-3

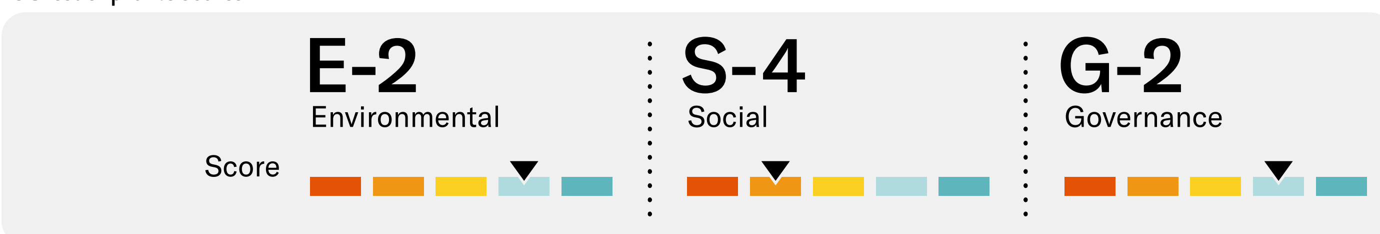
Exhibit 4
ESG credit impact score



Source: Moody's Ratings

Concordia's **CIS-3** ESG Credit Impact Score reflects the exposure primarily from social risk which is mitigated by governance considerations.

Exhibit 5
ESG issuer profile scores



Source: Moody's Ratings

Environmental

The **E-2** issuer profile score (IPS) reflects low exposure across all environmental risk categories. Located in the urban area of the City of Montreal, Concordia is not subject to material environmental risks as its infrastructure is built to withstand both the cold winters of Montreal as well as the warm summers. Concordia has adopted sustainability as a core value in its strategic planning which ensures the university will be aligned with changing policy directives on environmental and sustainability factors.

Social

The **S-4** social IPS reflects the mix of high exposure to risk stemming from demographic and societal trends as well as exposure to customer relations offset by immaterial levels of risk from other social considerations. Concordia has an elevated reliance on revenue driven by students and faces weak demographic trends among the domestic population and increased competition, as well as geopolitical and economic risk, among international students. The increase in tuition heightens customer relations risk as student's will revise their value for money proposition leading to challenges for Concordia to ensure the quality of its academic offerings reflect the new expectations of students. Provincial funding and tuition setting policies present risks to Concordia as does the structure of the workforce, including the average age and degree of unionization of staff, which reduces fiscal flexibility given the high share of total operating costs that stem from wages and benefits.

Governance

The G issuer profile score (**G-2**) captures Concordia's low exposure to risks from governance factors. The university's organizational structure is typical for Canadian universities, allowing for ease of funding from the provincial government as well as funding allocations between the university's departments. The Board structure is quite robust with adequate oversight responsibilities. The management track record of the university demonstrates consistency and management utilizes multi-year forward looking plans to help address and mitigate potential issues before they arise.

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

The assigned baseline credit assessment (BCA) of a3 is in line with the scorecard indicated outcome. For details of our rating approach, please refer to the Higher Education (July 2024) and Government-Related Issuers (January 2024) methodologies.

Exhibit 6
Concordia University

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	534	Aa
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	A	A
	Operating Environment	Baa	Baa
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	4%	Baa
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	331	Aa
	Total Cash and Investments to Operating Expenses	0.6	A
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	0.5	A
	Annual Debt Service Coverage	0.5	B
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	A	A
	Scorecard-Indicated Outcome		a3
	Assigned BCA		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 Ratings

Ratings

Exhibit 7

Category	Moody's Rating
CONCORDIA UNIVERSITY, QUEBEC	
Outlook	Negative
Baseline Credit Assessment	a3
Senior Unsecured -Dom Curr	A1

Source: Moody's Ratings

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Asia Pacific	852-3551-3077
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EMEA	44-20-7772-5454