

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns A1 to American University, DC's Series 2019; outlook stable

18 Dec 2020

New York, December 18, 2020 -- Moody's Investors Service has assigned an A1 rating to American University, DC's proposed approximately \$100 million Taxable Bonds, Series 2019. Concurrently, we affirm A1 ratings on approximately \$641 million of outstanding rated debt. The outlook is stable.

RATINGS RATIONALE

American University's A1 rating reflects the university's very good market position as an established research university in an attractive urban location. The rating also incorporates expectations that the university will continue to take steps to adjust to revenue disruptions in fiscal 2021, returning to stronger performance in fiscal 2022, and maintain good liquidity. The A1 rating is also supported by substantial wealth and good financial planning. Offsetting factors include increasingly high financial leverage relative to peers along with 78% reliance on tuition and auxiliary revenue. In addition to increasing competition for undergraduate students, the university's tuition pricing power is exposed to broader demand for graduate and professional degree programs in Washington, DC.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Enrollment (FTE) in the fall 2020 semester declined 4% over the prior year. For the 2020-2021 academic year, the campus has had little student activity, as the university moved to an online curriculum and weathered loss of auxiliary revenue.

RATING OUTLOOK

The stable outlook reflects our expectations that leadership will continue to take prudent actions to adjust to near term operational and financial challenges posed by the coronavirus pandemic in fiscal 2021, and that operating performance will improve and the operating cash flow margin will remain above 10%. The outlook is also predicated on effective enrollment management with revenue growth in fiscal 2022.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Exceptional growth in financial reserves
- Improvement in revenue diversification

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Additional increase in financial leverage
- Sustained move to weaker operating performance
- Softening in student demand

LEGAL SECURITY

Debt is an unsecured general obligation of the institution.

USE OF PROCEEDS

Proceeds will be utilized for various capital improvement projects.

PROFILE

American University is a private non-sectarian research institution situated in a residential area of northwest Washington, DC. Operating revenue was \$683 million in fiscal 2020. The university enrolled over 12,500 students (FTE) in fall 2020 across a comprehensive array of undergraduate, graduate, and professional

programs including law, business, public affairs and international service.

METHODOLOGY

The principal methodology used in these ratings was Higher Education published in May 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1175020 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1243406 .

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