

CREDIT OPINION

13 March 2025



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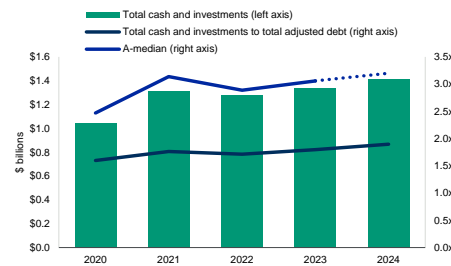
American University, DC

Update to credit analysis following outlook change

Summary

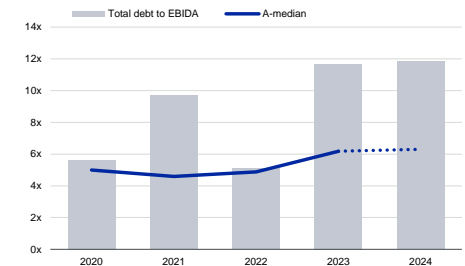
[American University's](#) (A1 negative) credit quality reflects its very good brand and strategic positioning as a large, comprehensive university, with an over \$700 million scope of operations leveraging its location in the [District of Columbia](#). Substantial wealth and unrestricted liquidity provide ample financial flexibility. Sound philanthropic support, averaging \$42 million annually over the fiscal 2022-24 period, aids strategic capital and operating investments. Offsetting considerations include AU's elevated financial leverage, with total cash and investments to total adjusted debt at 1.9x and long-dated bullet maturities. Significantly weaker fiscal 2024 EBIDA reflected elevated competition primarily at the graduate level combined with expense inflation. Prospects for structurally balanced fiscal 2025 and 2026 performance will be reliant on adherence to planned budget cuts and restrained use of available reserves.

Exhibit 1
High leverage despite strong wealth



Preliminary 2024 median
Source: Moody's Ratings

Exhibit 2
Weaker EBIDA impacts leverage profile



Preliminary 2024 median
Source: Moody's Ratings

Credit strengths

- » Very good brand and strategic positioning as a large comprehensive university, with \$709 million scope of operations leveraging its location in the District of Columbia
- » Substantial wealth with total cash and investments of \$1.4 billion and favorable flexibility with unrestricted liquidity at \$945 million or 513 monthly days cash on hand
- » Sound philanthropic support aids strategic capital and operating investments

This report was republished on 13 March 2025 with correct text regarding a project in the Leverage and coverage section.

Credit challenges

- » Weakening financial performance due to very competitive student market, exposure to international student demand disruptions, and inflationary costs
- » Elevated financial leverage with cash and investments to total adjusted debt at 1.9x and long-dated bullet maturities
- » Limited revenue diversity with student charges comprising nearly 80% of fiscal 2024 operating revenue

Rating outlook

The negative outlook reflects the challenges management will face as it attempts to align expenses with revenues pressured by the declines in net tuition revenue. The university's ability to return to strong surplus operations in line with prior years' performance will be a key credit consideration going forward given its considerable financial leverage.

Factors that could lead to an upgrade

- » Exceptional growth in cash and investments covering total adjusted debt by at least 3.5x and expenses by at least 5x
- » Strengthening of brand and strategic positioning evidenced by sustained growth in net tuition revenue and net tuition per student

Factors that could lead to a downgrade

- » Inability to achieve EBIDA margins over 12% and annual debt service coverage over 2.5x beginning in fiscal year 2026
- » A decline in total cash and investments to total adjusted debt below 1.8x given weakened operating performance

Key indicators

Exhibit 3

American University, DC

	2020	2021	2022	2023	2024	Median: A Rated Private Universities
Total FTE Enrollment	12,538	13,402	12,660	11,956	11,462	4,986
Operating Revenue (\$000)	675,941	564,639	730,848	704,045	708,561	240,752
Annual Change in Operating Revenue (%)	-2.1	-16.5	29.4	-3.7	0.6	2.0
Total Cash & Investments (\$000)	1,043,952	1,316,815	1,276,590	1,340,547	1,413,183	547,642
Total Adjusted Debt (\$000)	653,300	746,046	745,406	745,248	744,870	178,750
Total Cash & Investments to Total Adjusted Debt (x)	1.6	1.8	1.7	1.8	1.9	3.1
Total Cash & Investments to Operating Expenses (x)	1.7	2.3	1.9	1.9	2.0	2.3
Monthly Days Cash on Hand (x)	480	734	548	532	513	402
EBIDA Margin (%)	16.8	13.5	20.0	9.1	8.9	11.9
Total Debt to EBIDA (x)	5.6	9.7	5.1	11.7	11.8	6.2
Annual Debt Service Coverage (x)	4.9	3.1	5.3	2.3	2.3	2.6

Fiscal year ending June 30 for years ending 2021-24; April 30 for fiscal 2020

Source: Moody's Ratings

Profile

American University is a large comprehensive institution located in a residential area of northwest Washington, DC, chartered by Congress in 1893. The university provides an array of undergraduate, graduate, and professional programs including law, business, public affairs and international service. For fiscal 2024, AU recorded \$709 million in operating revenue and for fall 2024, enrolled 11,462 full-time equivalent (FTE) students.

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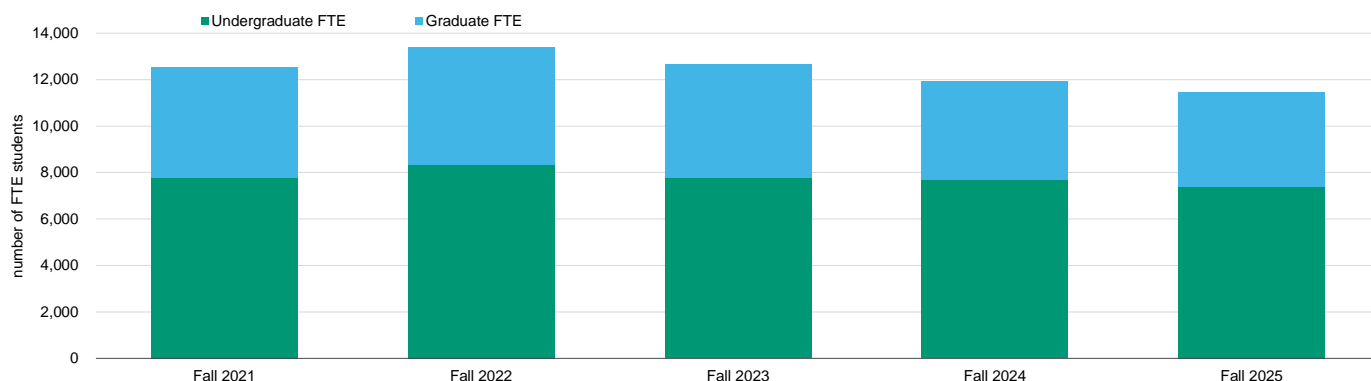
Detailed credit considerations

Market profile

American University's strong brand and strategic positioning support its status as a comprehensive private university in the District of Columbia. However, significant competition and weak demographic trends in the DC metro and Mid-Atlantic regions, along with disruptions in international student enrollment, will continue to challenge its market position. Fall 2024 full-time enrollment of 11,462 students was down 9% from fall 2020, due to declines in both undergraduate and graduate students. For fall 2025, management expects freshman matriculations to increase as FAFSA-related disruptions are resolved. Graduate enrollment will remain constrained by international visa issues and employment alternatives. At the undergraduate level, enrollment growth is limited by the District of Columbia's requirement for 67% of undergraduates to be housed on campus..

Exhibit 4

Multiyear enrollment challenges across both undergraduate and graduate students as university faces lower cost peers



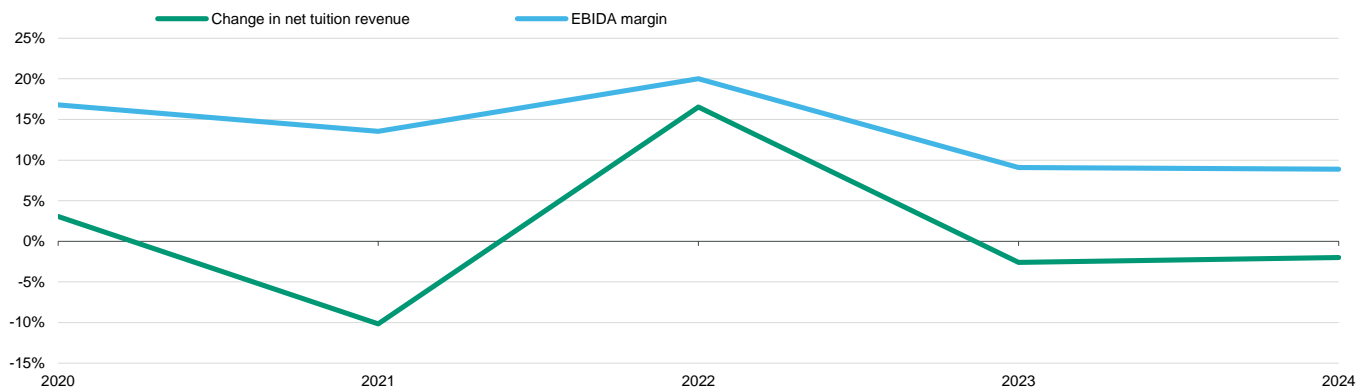
Source: Moody's Ratings and American University, DC

Operating performance

American's path to structurally balanced financial operations will remain challenging as leadership aligns inflationary expenses with revenues pressured by softer student demand. Returning to strong surplus operations, as seen in prior years, will be critical for credit quality. The management team is focused on controlling expenses including implementing various strategies to limit growth. Stability and growth in net tuition revenue per student is a key strategy, evidenced by 9% growth from fiscal 2020-24. However, inflation and declining enrollment led to a 14% increase in expenses versus a 5% increase in revenue over the same period. Prospects for structurally balanced fiscal 2025 and 2026 performance will be reliant on adherence to planned budget cuts and restrained use of available reserves.

Exhibit 5

Changes in net tuition revenue directly impact EBIDA margins

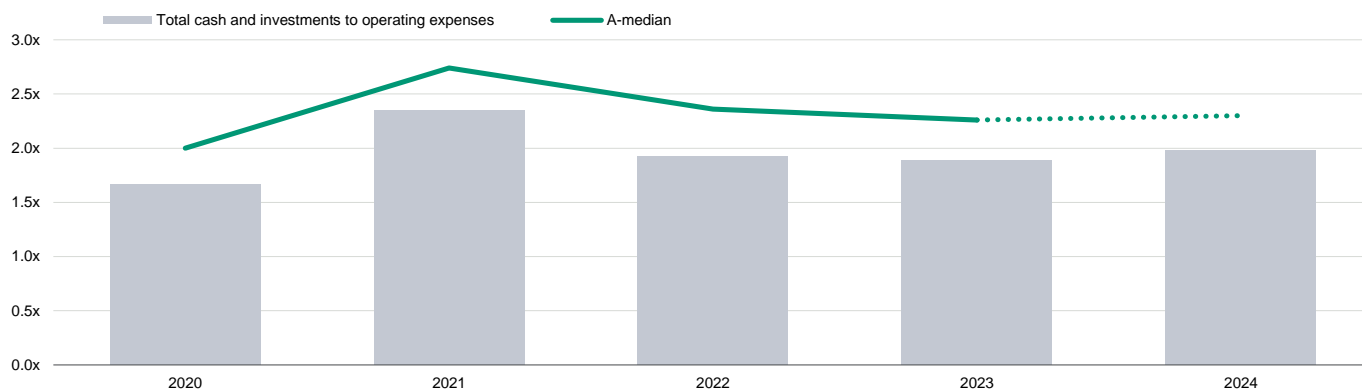


Source: Moody's Ratings

Wealth and liquidity

Cash and investments totaling \$1.4 billion for fiscal 2024 and \$945 million in monthly liquidity provide ample financial flexibility while American addresses structural operating balance. Total wealth is up 35% in the fiscal 2020-24 period, driven by investment returns, new gifts from the recent \$500 million comprehensive campaign, and retained earnings. AU's strong monthly liquidity translating to a sound 512 days, above the A-median of 402 days, underpins support for the university's \$125 million commercial paper (CP) program (unrated) backed by self-liquidity and for unfunded commitments that comprise about 23% of the \$1.1 billion investment portfolio.

Exhibit 6
Solid wealth relative to operating expenses nearly on par with rated peers

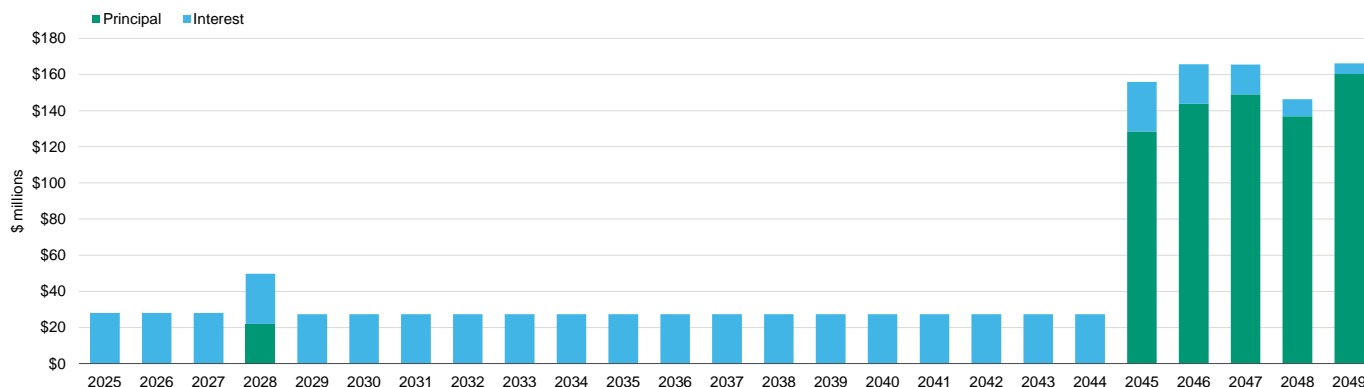


Preliminary 2024 median
 Source: Moody's Ratings

Leverage and coverage

Financial leverage will remain elevated as debt is largely comprised of long-dated bullet maturities, with virtually all interest only payments through 2044. Fiscal 2024 total adjusted debt of \$745 million was 1.9x total cash and investments and 1.1x operating revenue, weaker than the A-medians of 3.1x and 0.8x, respectively. Favorably, the debt is all fixed rate, and the university internally treats debt as amortizing and annually allocates funding to address large future principal payments. The debt is a general obligation of AU and has no financial covenants. In addition, there is no balance on the \$125 million CP notes. With weaker financial performance in fiscal 2024, debt to EBIDA weakened to 11.8x, relative to the A-median of 6.2x.

Exhibit 7
Active treasury management of the long-dated debt maturities



Source: Moody's Ratings and American University, DC

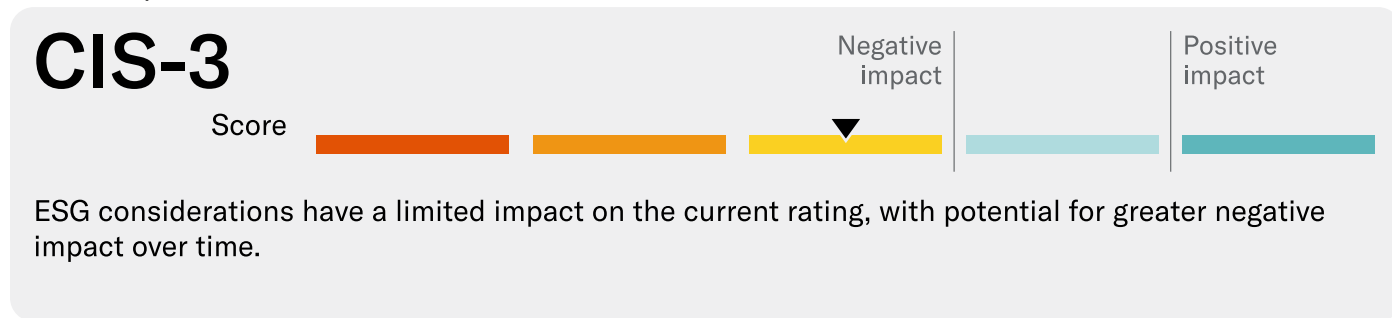
The university is in the midst of a significant \$105 million project, which will favorably address its higher 17.3 years average age of plant and address student-centric facility upgrades. Groundbreaking for the Student Thriving Complex project, which includes renovations to the Mary Graydon Center and Sports Center Annex and a new Athletic Performance (Meltzer) Center, occurred in March 2024, with

the completion anticipated for January 2026. Other recent projects for residence and dining hall renovations further address student-centric facility enhancements.

ESG considerations

American University, DC's ESG credit impact score is CIS-3

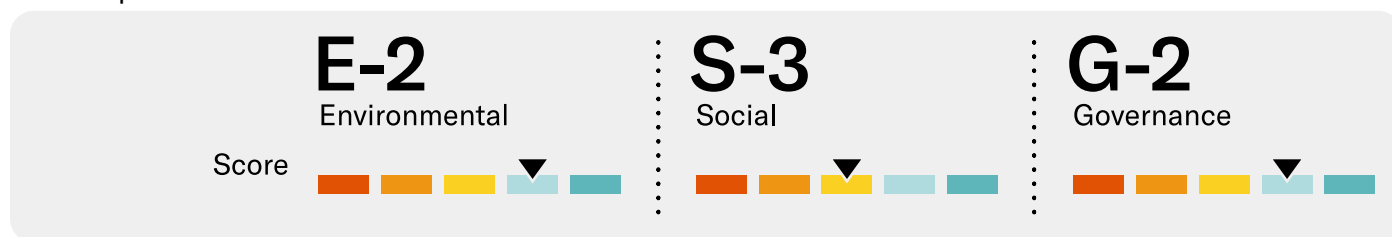
Exhibit 8
ESG credit impact score



Source: Moody's Ratings

American University's credit impact score (**CIS-3**) indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time. AU's significant wealth and liquidity partly mitigate ESG risks.

Exhibit 9
ESG issuer profile scores



Source: Moody's Ratings

Environmental

AU's environmental issuer profile score is **E-2**. AU's location in the District of Columbia exposes it to the region's extreme heat risks, but with low flood risk relative to the district given its elevation. Regarding carbon transition, in 2018, AU achieved its goal for carbon neutrality as it purchases its electricity needs from 100% renewable sources.

Social

American University's social issuer profile score (**S-3**) incorporates its heightened exposure to demographic risks, and some exposure to customer relations and human capital risks that could escalate over time. The university remains highly reliant on students from the mid-Atlantic and Northeast states, which is an area with substantial competition and a weak demographic outlook, but its relatively broad national reach is a mitigating element. Favorably, consistent with most of the higher education sector, AU has a mission aligned with positive social impact through its education and service mission. Customer relations risks include a high reliance on net tuition revenue with vulnerability to shifting consumer preferences, partly mitigated by steady donor support and research activity. Solid graduation rates and manageable levels of student debt levels relative to postgraduate earnings favorably factor into the customer relations framework. Human capital risks include some exposure to faculty tenure, providing for labor rigidity, though a high percentage of part-time faculty provides greater expense flexibility. Collective bargaining exposure including for some staff and adjunct faculty remains limited but could increase over time.

Governance

American University's governance issuer profile score is **G-2**. While historically strong financial performance has weakened, financial discipline and a track record of management credibility will support a return to strong operating results and ongoing capital investments despite challenging student market and revenue conditions. A broad review of strategic priorities and investments to enhance the university's financial planning is underway. Like most of the sector, the large composition of the board including alumni and key donors introduces moderately negative board structure risks. Favorably, the trustees and senior leadership emphasize transparency and close fiscal oversight yielding positive operations and market profile.

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 [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 10

American University, DC

Scorecard Factors and Sub-factors	Value	Score
Factor 1: Scale (15%)		
Adjusted Operating Revenue (USD Million)	709	Aa
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)	1,413	Aa
Total Cash and Investments to Operating Expenses	2.0	A
Factor 5: Leverage and coverage (20%)		
Total Cash and Investments to Total Adjusted Debt	1.9	A
Annual Debt Service Coverage	2.3	Baa
Factor 6: Financial Policy and Strategy (10%)		
Financial Policy and Strategy	A	A
Scorecard-Indicated Outcome		A2
Assigned Rating		A1

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.

Values based on fiscal 2024 financial data

Source: Moody's Ratings

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