MOODY'S
INVESTORS SERVICE

CREDIT OPINION
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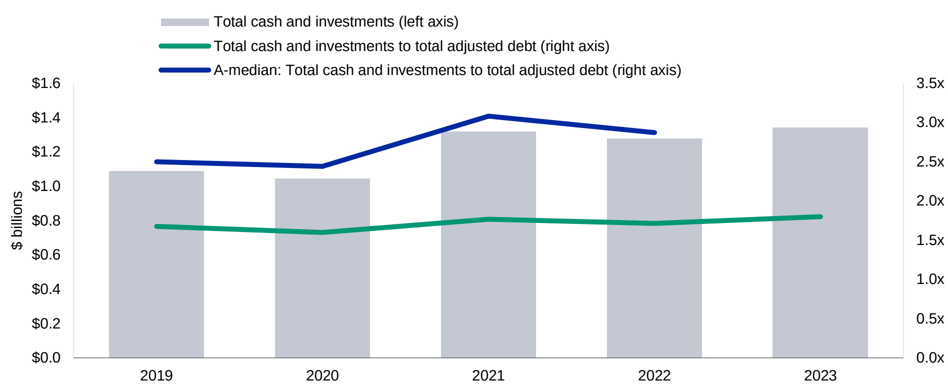
American University, DC

Update to credit analysis

Summary

American University's (A1 stable) 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 $43 million annually over the fiscal 2021-23 period, aids strategic capital and operating investments. Offsetting considerations include AU's elevated financial leverage, with cash and investments to total adjusted debt at 1.8x and long-dated bullet maturities. Significantly weaker fiscal 2023 EBIDA reflected elevated competition primarily at the graduate level combined with inflationary costs. Management is projecting stronger fiscal 2024 EBIDA margins, though still lagging historical norms that were in excess of 18%. Prospects for a positive fiscal 2025 EBIDA will be reliant on sustained growth in net tuition per student and adherence to planned budget cuts.

Exhibit 1
Elevated leverage compared to rated peers



Source: Moody's Ratings

Credit strengths

» Very good brand and strategic positioning as a large comprehensive university, with $704 million scope of operations leveraging its location in the District of Columbia

» Substantial wealth with total cash and investments of $1.3 billion and favorable flexibility with unrestricted liquidity at $973 million or 532 monthly days cash on hand

» Sound philanthropic support aids strategic capital and operating investments

Credit challenges

- » Very competitive student market, exposure to international student demand disruptions, and inflationary costs constrain near-term operating performance
- » Elevated financial leverage with cash and investments to total adjusted debt at 1.8x and with long-dated bullet maturities
- » Limited revenue diversity with student charges comprising nearly 80% of fiscal 2023 operating revenue

Rating outlook

The stable outlook reflects Moody's expectations that AU's leadership team will take prudent actions to improve EBIDA margins and debt service coverage in line with historic levels. The university's ability to return to strong surplus operations in line with prior years' performance will be a key credit consideration going forward.

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

- » Multiyear weak EBIDA margins of 15% or less and below 4x annual debt service coverage
- » Increase in leverage that decreases wealth to debt below 1.8x

Key indicators

Exhibit 2

American University, DC

	2019	2020	2021	2022	2023	Median: A Rated Private Universities
Total FTE Enrollment	13,041	12,538	13,402	12,660	11,956	5,320
Operating Revenue ($000)	690,307	675,941	564,639	730,848	704,045	239,809
Annual Change in Operating Revenue (%)	11.6	-2.1	-16.5	29.4	-3.7	10.7
Total Cash & Investments ($000)	1,087,045	1,043,952	1,316,815	1,276,590	1,340,547	529,788
Total Adjusted Debt ($000)	648,500	653,300	746,046	745,406	745,248	194,248
Total Cash & Investments to Total Adjusted Debt (x)	1.7	1.6	1.8	1.7	1.8	2.9
Total Cash & Investments to Operating Expenses (x)	1.7	1.7	2.3	1.9	1.9	2.4
Monthly Days Cash on Hand (x)	523	480	734	548	532	417
EBIDA Margin (%)	19.3	16.8	13.5	20.0	9.1	16.2
Total Debt to EBIDA (x)	4.8	5.6	9.7	5.1	11.7	4.9
Annual Debt Service Coverage (x)	5.2	4.9	3.1	5.3	2.3	3.3

Fiscal year end June 30
Source: Moody's Ratings

Profile

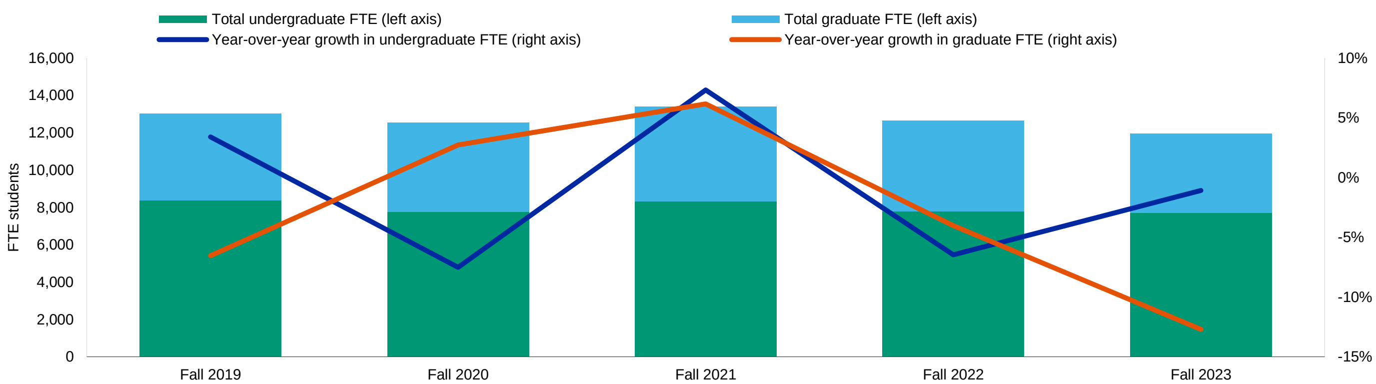
American University is a large comprehensive institution located in a residential area of northwest Washington, DC. The university provides an array of undergraduate, graduate, and professional programs including law, business, public affairs and international service. For fiscal 2023, AU recorded $704 million in operating revenue and for fall 2023, enrolled 11,956 full-time equivalent (FTE) students.

Detailed credit considerations

Market profile

American University's very good brand and strategic positioning underpins its market position as a comprehensive private university in the District of Columbia. However, significant student market competition and weak demographic trends within the DC metro and Mid-Atlantic regions and disruptions impacting international student enrollment will continue to temper its market position. Fall 2023 FTE enrollment of 11,956 student was down 8% from fall 2019, driven by declines in both undergraduate and graduate students over the period. For fall 2024, while first time freshman applications and expected first-time freshman are up slightly year-over-year, AU is budgeting for flat overall enrollment. Enrollment at the graduate level will remain constrained by international visa disruptions 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 3
Enrollment declines largely driven by declining graduate students

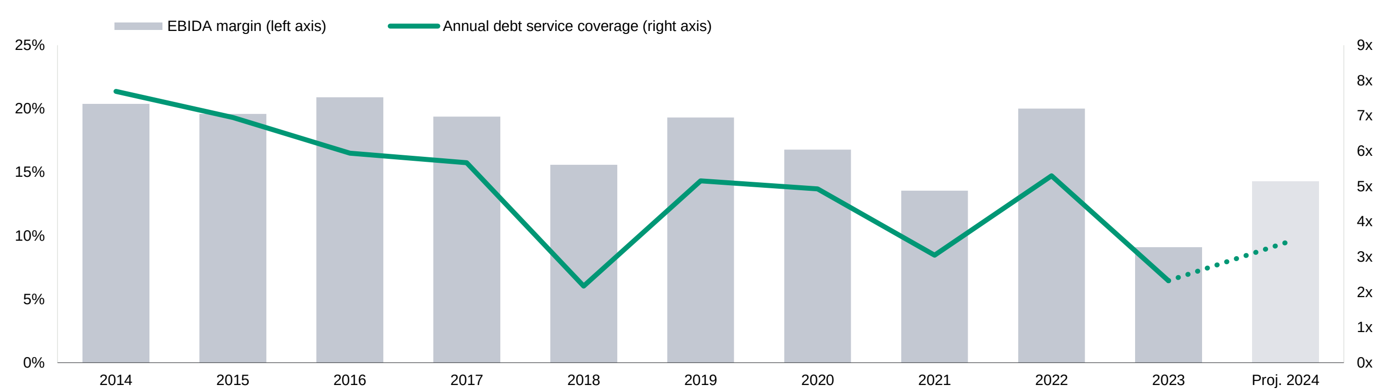


Source: Moody's Ratings

Operating performance

Transitions in financial leadership and implementation of an enterprise resource planning tool underpin weaker recent operating performance and ongoing review of strategic priorities and investments. A significantly weaker fiscal 2023 EBIDA margin of 9.1% and 2.3x debt service coverage (interest only) reflected elevated competition primarily at the graduate level, combined with IT-related and inflationary costs. While management is projecting stronger fiscal 2024 EBIDA margins, nearing 14%, margins lag historical norms that were in excess of 18%. Prospects for positive fiscal 2025 EBIDA performance will be reliant on sustained growth in net tuition per student and adherence to planned budget cuts.

Exhibit 4
Performance expected to improve in fiscal 2024 before returning to historically strong EBIDA margins and debt service coverage



AU-projected fiscal 2024 margin and coverage
Source: Moody's Ratings and American University, DC

Wealth and liquidity

Cash and investments totaling $1.3 billion for fiscal 2023 and $973 million in monthly liquidity provide ample financial flexibility. Total wealth is up a net 23% in the fiscal 2019-23 period, driven by investment returns, the current $500 million capital campaign and retained earnings. Prospects for significant growth in the near term will be muted as AU executes on its compensation and financial aid investment plan. The fiscal 2023 total cash and investments relative to expenses of 1.9x is modest relative to the A-median of 2.4x.

AU's strong monthly liquidity translating to a sound 532 days, above the A-median of 417 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 24% of the $1 billion investment portfolio.

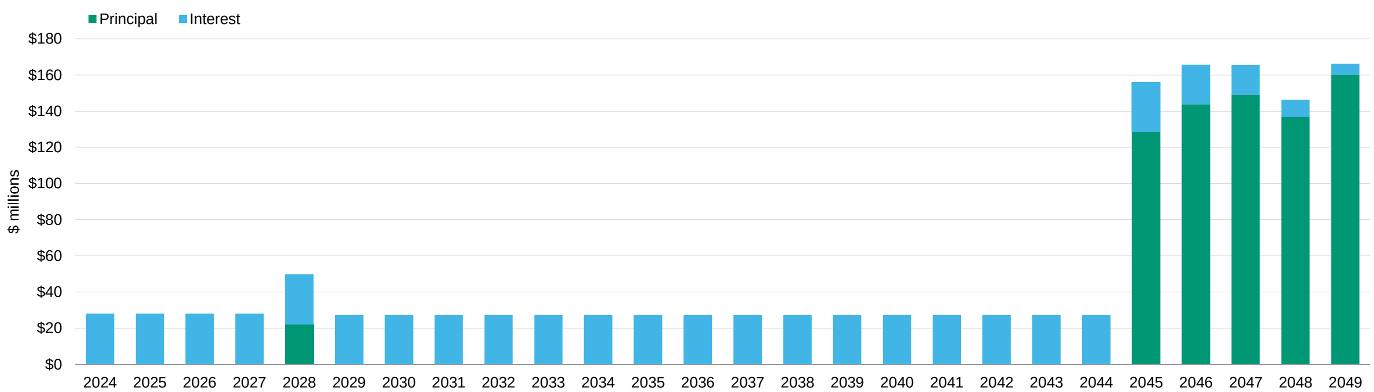
Leverage and coverage

Financial leverage will remain elevated as debt is largely comprised of long-dated bullet maturities. Fiscal 2023 total adjusted debt of $745 million was 1.8x total cash and investments and 1.1x operating revenue, weaker than the A-medians of 2.9x 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 2023, debt to EBIDA weakened to 11.7x, relative to the A-median of 4.9x.

Ongoing capital plans total $235 million, with funding from gifts, earmarked reserves, and unspent bond proceeds. The university is in the midst of its Student Thriving Complex project, with includes renovations to the Mary Graydon Center and Sports Center Annex and a new Athletic Performance (Meltzer) Center.

Exhibit 5

Active treasury management for the long-dated bullet maturities



Source: Moody's Ratings and American University, DC

ESG considerations

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

Exhibit 6
ESG credit impact score

CIS-3

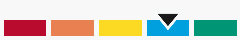
ESG considerations have a limited impact on the current rating, with potential for greater negative impact over time.

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 coupled with disciplined budgeting practices partly mitigate ESG risks.

Exhibit 7
ESG issuer profile scores

ENVIRONMENTAL
E-2



SOCIAL
S-3

GOVERNANCE
G-2

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 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 8

American University, DC

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	704	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)	1,341	Aa
	Total Cash and Investments to Operating Expenses	1.9	A
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	1.8	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 2023.
Source: Moody's Ratings

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