Moody's

Rating Action: **Moody's downgrades Webster University's (MO) issuer and debt ratings to Ba3; outlook negative**

08 Nov 2023

New York, November 08, 2023 – Moody's Investors Service has today downgraded Webster University's (MO) issuer and debt ratings to Ba3 from Ba1. The outlook remains negative. The university had total outstanding debt of approximately $125 million at fiscal end 2023.

RATINGS RATIONALE

The downgrade of Webster University's issuer rating to Ba3 was largely driven by further erosion in the university's financial position driven by a continuation of deeply imbalanced operations. The increased capital spending combined with the fourth consecutive year of double-digit operating deficits resulted in the further depletion to the university's already very thin liquidity in fiscal 2023. While significant enrollment gains will drive a sizable increase in revenue growth, the university will again generate an operating deficit in fiscal 2024, leading to further spend down of liquid reserves. Along with the use of reserves, the university has collateral posting requirements on its outstanding lines of credit, leaving essentially no available liquidity under Moody's calculation. Aside from the budget pressures, the university has elevated debt relative to both wealth and scale, and elevated debt structure risks that introduce additional credit risk. Both demographic and societal trend risks, as well as financial strategy considerations were drivers of the rating action, reflected in the ESG credit impact score of 5.

Webster University's Ba3 issuer rating incorporates its good scale and wealth. The university continues to implement a multifaceted strategy to improve student demand following a period of steep and sustained enrollment declines through fall 2021. These measures contributed to significant enrollment gains in both fall 2022 and fall 2023, translatin to a substantial forecasted increase in net tuition revenue in fiscal 2024. Sustaining strong net tuition revenue growth beyond the current fiscal year is critical to stabilizing operating results and liquidity. The university will rely on additional revenue growth to meet its articulated goal of restoring positive cash flow by fiscal 2025, though achieving this will prove difficult absent further expense reductions.

The university's Ba3 revenue bond rating is based on the issuer rating and the general obligation characteristics of the debt.

RATING OUTLOOK

The negative outlook continues to reflect the downside risks of the university's deep operating deficits and diminishing financial reserve balance.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Significant and sustained improvement in operating performance driven by a restoration in net tuition revenue growth and the implementation of material expense reductions

- Marked growth in wealth and liquidity, providing materially stronger coverage of debt and expenses

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to restore positive operating cash flow in fiscal 2025 and make steady progress towards achieving fiscal balance on a GAAP basis thereafter

- Failure to stabilize liquidity balances (cash and cash equivalents plus quasi-endowment funds) beginning in fiscal 2025

LEGAL SECURITY

Rated bonds are unconditional obligations of the university with a lien on general revenue.

PROFILE

Originally founded in 1915, Webster is a private university with its main residential campus just outside of St. Louis, multiple metropolitan and military base campuses scattered through the United States, as well as international locations across nine countries and three continents (Europe, Asia and Africa). Webster offers a diverse mix of undergraduate, graduate, and certificate programs and has extensive online programming. It enrolled about 10,000 full-time equivalent students in fall 2023 and generated $125 million in operating revenue in fiscal 2022.

METHODOLOGY

The principal methodology used in these ratings was Higher Education Methodology published in August 2021 and available at https://ratings.moodys.com/rmc-documents/72158. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.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 on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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CREDIT OPINION
9 November 2023

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Webster University, MO

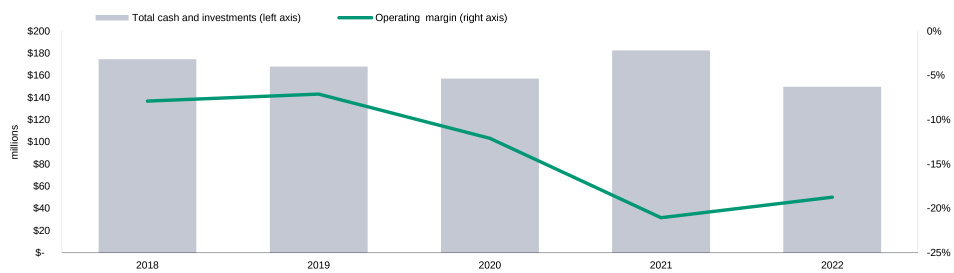
Update following downgrade to Ba3

Summary

Webster University's (Ba3 negative) credit quality reflects its highly constrained financial position while also acknowledging traction in strengthening student demand. A fourth consecutive year of double digit operating deficits materialized in fiscal 2023, leading to further depletion in the already thin liquidity. While significant enrollment gains over the last two years will drive a sizable increase in revenue growth, the university will again generate an operating deficit in fiscal 2024, leading to further spend down of liquid reserves. Aside from the budget pressures, the university has elevated debt relative to both wealth and scale, along with elevated debt structure risks that introduce additional credit risk. The university has shown signs of improving student demand through the implementation of a multifaceted enrollment management plan. Its ability to sustain net tuition revenue growth beyond the current fiscal year is essential to its articulated goal of restoring positive cash flow generation and stabilizing liquidity by fiscal 2025.

On November 8th, Moody's downgraded Webster's issuer and debt ratings to Ba3 from Ba1.

Exhibit 1
Deep operating deficits contribute to declining wealth levels



Source: Moody's Investors Service

Credit strengths

» Solid wealth and scale, with total cash and investments and operating revenue amounting to a respective $150 million and $125 million in fiscal 2022

» Good geographic and programmatic diversification with both domestic and international campuses in metro areas and military bases, along with a significant online footprint

» Early positive traction of the multifaceted strategy to strengthen student demand, resulting in a projected net tuition revenue increase of 31% in fiscal 2024

Credit challenges

» Structurally imbalanced operations with sizeable deficits continuing through at least fiscal 2024

» Diminished liquidity position due to heightened exposure to budgetary challenges and debt structure risks

» Significant student demand challenges due to competitive pressures and weak Midwestern demographics, resulting in a sustained trend of declining revenue

» Elevated debt levels relative to scale and wealth, and a sustained inability to cover debt service from cash flow

Rating outlook

The negative outlook continues to reflect the downside risks of the university's deep operating deficits and diminishing financial reserve balance.

Factors that could lead to an upgrade

» Significant and sustained improvement in operating performance driven by a restoration in net tuition revenue growth and the implementation of material expense reductions

» Marked growth in wealth and liquidity, providing materially stronger coverage of debt and expenses

Factors that could lead to a downgrade

» Inability to restore positive operating cash flow in fiscal 2025 and make steady progress towards achieving fiscal balance on a GAAP basis thereafter

» Failure to stabilize liquidity balances (cash and cash equivalents plus quasi-endowment funds) beginning in fiscal 2025

Key indicators

Exhibit 2
WEBSTER UNIVERSITY, MO

	2018	2019	2020	2021	2022
Total FTE Enrollment	8,114	7,879	7,374	7,149	7,994
Operating Revenue ($000)	175,025	166,237	149,629	133,450	124,789
Annual Change in Operating Revenue (%)	-6.3	-5.0	-10.0	-10.8	-6.5
Total Cash & Investments ($000)	174,530	167,868	157,041	182,511	149,605
Total Debt ($000)	103,472	107,344	97,926	112,257	123,823
Total Cash & Investments to Total Adjusted Debt (x)	1.2	1.1	1.1	1.4	1.2
Total Cash & Investments to Operating Expenses (x)	0.9	0.9	0.9	1.1	1.0
Monthly Days Cash on Hand (x)	217	193	196	260	143
EBIDA Margin (%)	2.8	4.3	0.1	-8.0	-5.4
Total Debt to EBIDA (x)	21.4	14.8	618.7	-10.5	-18.4
Annual Debt Service Coverage (x)	0.8	1.1	0.0	-1.1	-0.7

Source: Moody's Investors Service

Profile

Originally founded in 1915, Webster is a private university with its main residential campus just outside of St. Louis, multiple metropolitan and military base campuses scattered through the United States, as well as international locations across nine countries and three continents (Europe, Asia and Africa). Webster offers a diverse mix of undergraduate, graduate, and certificate programs and has extensive online programming. It enrolled about 10,000 full-time equivalent students in fall 2023 and generated $125 million in operating revenue in fiscal 2022.

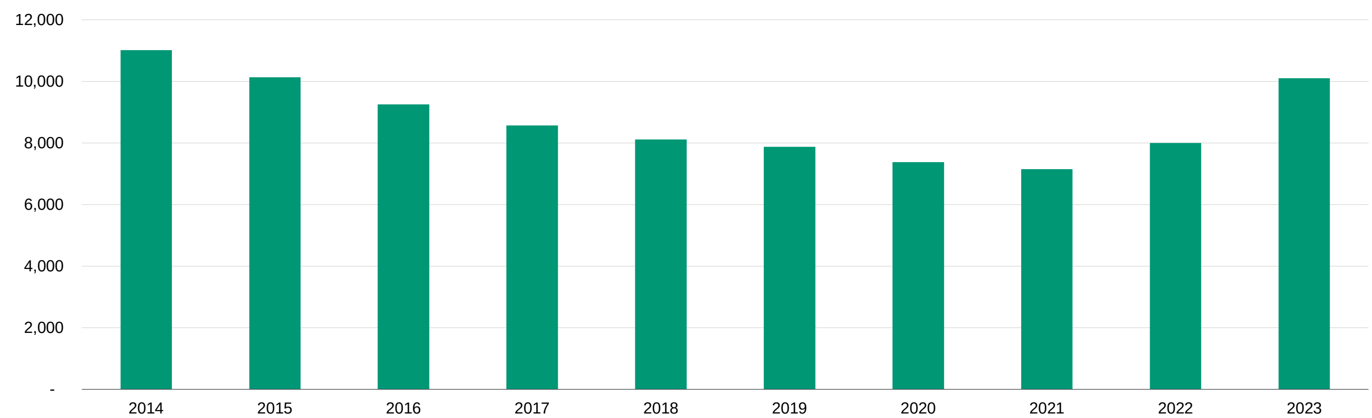
Detailed credit considerations

Market profile

Webster will continue to confront considerable student demand risks due to the competitive market conditions, weak demographics in the Midwest, and changing consumer preferences. Following a sustained period of enrollment and revenue declines through fiscal 2022, the university's implementation of a new strategic enrollment plan has yielded positive early results. Total enrollment increased by an outsized 12% and 26% over the last two years to 10,105 full-time equivalent students in fall 2023. With this increase, management forecasts 31% annual growth in net tuition revenue in fiscal 2024. However, the shifting composition of enrollment to include a greater share of international students, along with the significant differentiation in tuition pricing structures among the global campuses contributes to low and declining net tuition per student at under $14,000 in fiscal 2022. International students account for 47% of total full-time equivalent enrollment. Webster's high reliance on net student revenue, representing about 86% of total operating revenue, underscore the importance of achieving continued success of its enrollment growth initiatives.

Exhibit 3

Enrollment shows signs of recovery in fall 2023 following a sustained period of declines

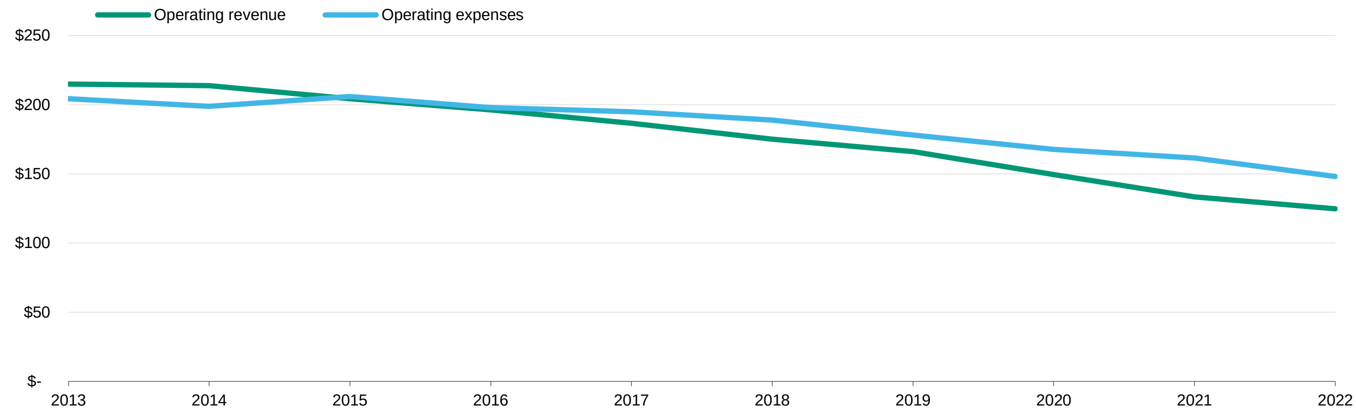


Source: Moody's Investors Service

Operating performance

Deep operating deficits will continue through fiscal 2024 as the university seeks to restore alignment between revenue and expenses. The university's preliminary financial results in fiscal 2023 show another year of weak operating results following the 19% and 21% operating deficits over the preceding two years. The degree of financial imbalance is the result of a 41% decline in operating revenue over the last decade compared to a 27% reduction in operating expenses over the same period. The university's financial forecast for fiscal 2024 signals another year of deficit operations, but at a considerably smaller magnitude relative to fiscal 2023 due to the stronger revenue growth prospects. Like prior years, the board has authorized use of quasi-endowment funds to close the deficit in fiscal 2024. The university has articulated a goal of returning to positive operating cash flow in fiscal 2025, though achieving this depends on its ability to sustain net tuition revenue growth and additional expense management measures.

Exhibit 4
Spending reductions were insufficient to match the magnitude of revenue declines over the last decade



Source: Moody's Investors Service

Wealth and liquidity

Total cash and investments will continue to trend down in fiscal 2024 due to the planned use of reserves to cover the forecasted operating deficit. Total cash and investments amounted to $108 million in fiscal 2023 according to the university's unaudited financial results, equating to a substantial 41% decline from fiscal 2021. Further, with the diminishing balance of quasi-endowment funds and the collateralization of $40 million of outstanding draws on lines of credit, the university is left with virtually no liquidity under Moody's calculation. Additional liquidity risks are introduced by the university's debt structure, which includes various financial covenants including a liquidity covenant will be breached in fiscal 2023. The covenant breach required the university to procure the services of a financial consultant to help restore compliance.

Leverage

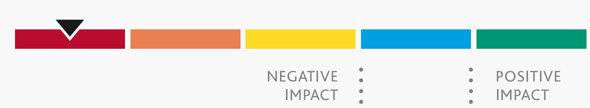
The additional use of reserves to cover the forecasted operating deficit in fiscal 2024 will drive further erosion to the university's financial leverage profile. Total cash and investments to total adjusted debt fell below 1.0x in fiscal 2023 and additional weakening is likely to materialize in fiscal 2024. With a third consecutive year of double digit operating deficits in fiscal 2023, the university will again be unable to cover debt service obligations from operating cash flow. Improving debt affordability and stabilizing financial reserve coverage of debt will prove difficult unless the university can restore positive cash flow in fiscal 2025. Despite an elevated age of plant at above 17 years, the university reports no additional debt plans.

ESG considerations

Webster University, MO's ESG credit impact score is CIS-5

Exhibit 5
ESG credit impact score

CIS-5

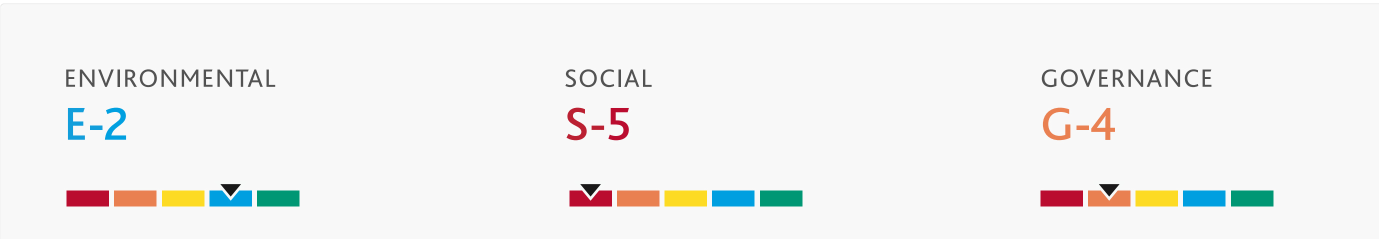


ESG considerations have a pronounced impact on the current rating, which is lower than it would have been if ESG risks did not exist. The negative impact of ESG considerations on the rating is higher than for an issuer scored CIS-4.

Source: Moody's Investors Service

Webster University's **CIS-5** is largely driven by its heightened exposure to governance and social risks, each contributing to a highly constrained financial position.

Exhibit 6
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

The **E-2** incorporates the unique environmental risks introduced by the many domestic and international locations. Its main campus in eastern Missouri provides for moderate exposure to climate risks that including heat stress. This exposure could contribute to rising utility costs, but overall the likelihood that environmental risk factors will have material budgetary or operational impact is low. The university has implemented a number of sustainability focused strategies to reduce its environmental impact, including various water conservation, energy efficiency, and waste reduction measures.

Social

The university's **S-5** incorporates its heightened demographic, societal trend, and customer relations risks. Elevated domestic and international competition, including within the online space, along with shifting consumer preferences and weak Midwestern demographics will continue to provide for considerable student market risk. Customer relations risks are introduced by the very high reliance on net student revenue and moderate philanthropy. While the university has exposure to faculty tenure, its relatively high proportion of part-time adjunct faculty provides for more limited human capital risk relative to sector peers. However, despite efforts to manage labor costs, the sustained revenue declines over the last decade driven in part by the pressured student market conditions contributed to deep operating deficits.

Governance

The university's **G-4** is informed by the sustained track record of deep operating deficits, leading to a reliance on drawing down lines of credit and reserves. At this point, the university has been unable to adequately adjust operating expenses to align with the steep magnitude of revenue declines over the last decade. The structurally imbalanced budgets, along with elevated exposure to demand debt, continue to introduce considerable liquidity risks. Further, the university's multi-campus locations both domestically and internationally, along with its significant online footprint, exposes it to multiple levels of competition and organizational structure complexity. Like most private universities, Webster's governance structure consists of trustees that include alumni and key donors provides for moderate board structure risk.

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 7

Webster University

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	125	A
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	Ba	Ba
	Operating Environment	Baa	Baa
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	-5%	Ca
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	150	Baa
	Total Cash and Investments to Operating Expenses	1.0	Baa
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	1.2	Baa
	Annual Debt Service Coverage	-0.7	Ca
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	B	B
	Scorecard-Indicated Outcome		Ba2
	Assigned Rating		Ba3

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 Investors Service

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