

MOODY'S

RATINGS

Rating Action: Moody's Ratings confirms Webster University's (MO) B1 ratings; outlook negative

15 Apr 2024

New York, April 15, 2024 -- Moody's Ratings has confirmed Webster University's (MO) B1 issuer and debt ratings. The outlook is negative. Previously, Webster's ratings were on review for downgrade. This concludes the review for downgrade initiated by Moody's Ratings on February 14, 2024.

The confirmation of Webster University's B1 issuer rating was largely driven by its progress in significantly reducing the magnitude of the operating deficit in the current fiscal year, its articulation of a credible plan to make additional progress towards restoring positive cash flow and stabilizing liquidity beyond fiscal 2024, and the successful petition to the St. Louis Circuit Court to reclassify about \$34 million of restricted endowment funds as unrestricted quasi-endowment. With this ruling, the university forecasts its liquidity ratio to be above the minimum financial covenant threshold, which provides near-term relief to liquidity risk.

RATINGS RATIONALE

Webster University's B1 issuer rating reflects its highly constrained financial position while also acknowledging traction in strengthening student demand. Double-digit operating deficits will materialize for the fifth consecutive year in fiscal 2024, leading to further depletion in the already thin liquidity. Aside from the budget pressures, the university has elevated debt relative to both wealth and scale, along with heightened debt structure risks that add considerable liquidity risk. The university has shown signs of improving student demand through the implementation of a multifaceted enrollment management plan. A substantial year-over-year enrollment increase will translate to strong revenue growth in fiscal 2024. Sustaining this revenue growth momentum beyond the current fiscal year is essential to meeting its articulated goal of restoring positive cash flow generation and stabilizing liquidity by fiscal 2025.

The confirmation of the university's B1 debt ratings reflect the issuer rating and the general obligation characteristics of the bonds.

RATING OUTLOOK

The negative outlook acknowledges the university's heightened budget challenges and the execution risks related to its ability to achieve articulated goals of sustaining strong revenue growth, returning to cash flow positive in fiscal 2025, and making consistent progress towards restoring balanced financial operations beyond fiscal 2025. The negative outlook also incorporates the university's constrained liquidity profile and elevated exposure to debt structure risks.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained strengthening in operating performance towards restoration of break-even operating results
- Significant improvement in liquidity profile and elimination of reliance on lines of credit for operations

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to make significant progress towards reducing the magnitude of the operating deficit in the current fiscal year and returning to positive cash flow in fiscal 2025 and thereafter
- Failure to materially strengthen unrestricted financial resources or remain in compliance with debt covenants
- Inability to sustain positive student demand momentum and growth in net student revenue in fiscal 2025

LEGAL SECURITY

Rated bonds are unconditional obligations of the university with a lien on general revenue. The university is bound by several financial covenants, including requirements to maintain unrestricted resources to long-term debt of at least 0.75x (liquidity ratio) and maximum annual debt service to unrestricted gross revenue of a maximum of 10% (maximum annual debt service ratio). The university generated a maximum annual debt service ratio of 7.53% in fiscal 2023. However, Webster's liquidity ratio at 20% in fiscal 2023 was well below the required threshold.

Under the legal documents, the covenant breach required the university to procure the services of a financial consultant to help restore compliance. However, if, after working with the consultant, the university's liquidity ratio is below 50% at the end of the fiscal year, an event of default could ensure, potentially triggering an acceleration event.

Following a petition by the university, the St. Louis Circuit Court recently issued a ruling that allows the university to reclassify about \$34 million of restricted endowment

funds as unrestricted quasi-endowment funds. With this reclassification, the university forecasts the liquidity ratio at 76.9% for the measurement date of May 31, 2024 (fiscal year end). Remaining in compliance with the liquidity covenant beyond fiscal 2024 will largely depend on the university's ability to achieve its financial forecast and restore positive cash flow.

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 generated \$118 million in operating revenue in fiscal 2023.

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.

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