MOODY'S
INVESTORS SERVICE

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

30 May 2019

New York, May 30, 2019 -- Moody's Investors Service has assigned an A1 rating to American University, DC's $410,000 Taxable Bonds, Series 2019. Concurrently, we affirm A1 ratings on approximately $449 million of outstanding rated debt. The outlook is stable.

RATINGS RATIONALE

American University's A1 rating reflects the university's market position as an established research university in an attractive urban location with ongoing robust student demand. Revenue growth is healthy, and operating performance remains solid despite some softening in fiscal 2018 ending April 30, resulting from higher than budgeted financial aid and some weaker residential hall occupancy. However, management continues to show the ability to adapt operations to enrollment shifts and, based on preliminary information, twelve-month performance through April 30, 2019, is in line with historic operating margins. Limited revenue diversity, with 79% of revenue derived from student charges, underscores the need for continued effective enrollment management.

Cash and investment growth is strong, up 25% over the past five years and largely generated by the university's solid operating performance. While absolute wealth is good at over $1.1 billion of total cash and investments, spendable cash and investment coverage of operating expenses and debt is weak relative to peers given the university's large operating scale. Unrestricted liquidity provides an excellent 592 monthly days cash on hand. Thoughtful strategic and financial planning help to offset the impact of elevated financial leverage and the university's high reliance on student charges. American's pro forma debt profile is expected to consist of all taxable fixed rate debt and no outstanding swaps following the issuance of the Series 2019 bonds. Although the new issuance increases debt, the complexity and risk associated with American's existing debt portfolio, which includes approximately 40% variable rate debt, privately placed debt and notes, swaps, collateral postings and covenants, is significantly reduced.

RATING OUTLOOK

The stable outlook reflects expectations of continued strong student demand, maintenance of flexible reserves and ongoing healthy operating performance.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Exceptional growth in financial reserves

- Increased philanthropic support leading to enhanced revenue diversification

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Softening of student demand

- Decline in operating performance leading to material reduction in flexible reserves

- Significant additional borrowing beyond current plans, which include eliminating swaps

LEGAL SECURITY

Debt is an unsecured general obligation of the university.

USE OF PROCEEDS

Proceeds will be used to refinance the Series 1999 Bonds, Series 2003 Bonds, Series 2006 Bonds and Series 2008 Bonds and certain loans, to terminate existing swap agreements, and to pay costs of issuance.

PROFILE

American University is a private non-sectarian research institution situated in a residential area of northwest Washington, DC. The university enrolled over 13,000 students in fall 2018 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. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt 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 ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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