

## CREDIT OPINION

17 January 2024



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# University of Notre Dame du Lac, IN

## Update to credit analysis

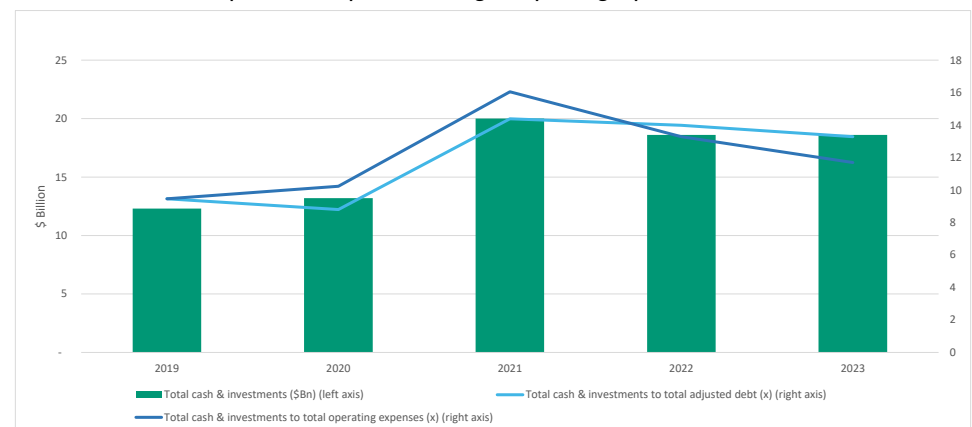
### Summary

The [University of Notre Dame du Lac, IN \(Aaa/stable\)](#) ("ND") benefits from its exceptional strategic position as a premier, academically selective Catholic research university. The university's financial resources are substantial, with significant unrestricted liquidity to support operational and strategic needs. Proactive, comprehensive budget and resource management are hallmarks of the university's exceptional financial policy and strategy, evidenced by a history of strong operating performance. Philanthropic support has surged over the past several years, promising continued support for ND's endowment as well as ample flexibility for capital investment. While ND's wealth provides notable flexibility, this is somewhat tempered by a budgetary reliance on endowment spending, which can pressure the university's fiscal operations in the event of prolonged market weakness. Additional credit considerations include intense competition for high caliber students and a debt structure that is primarily composed of bullet maturities.

Moody's maintains a Aaa issuer rating for Notre Dame, as well as a Aaa rating for its long term revenue bonds and a P-1 rating on its commercial paper notes. The outlook is stable.

Exhibit 1

### ND's substantial wealth provides exceptional coverage of operating expenses and debt



Source: Moody's Investors Service

## Credit strengths

- » Excellent national student demand as a premier, highly selective large Catholic research university
- » Robust balance sheet resources and liquidity, with fiscal 2023 (ending June 30) unrestricted monthly liquidity of \$4.64 billion or nearly 1,140 monthly days cash on hand
- » Consistently strong operating surpluses driven by prudent financial management
- » Active investment management function contributes to high performance and exceptional long-term investment returns
- » Superior fundraising bolsters balance sheet growth and provides funding for capital projects, with three-year average gift revenue of roughly \$415 million

## Credit challenges

- » Considerable national competition for the most talented students with other leading and well-endowed universities
- » Vulnerable to investment losses, given relatively high 44% reliance on investment income for operating revenue
- » Most debt in long-dated bullet maturities, underscoring the need for active asset-liability management

## Rating outlook

The stable outlook reflects Notre Dame's notable operating flexibility, given its strong brand, sizable wealth, robust donor support, and comprehensive budget and liquidity risk management, and Moody's expectation of continued exceptional financial performance going forward.

## Factors that could lead to an upgrade

- » Not applicable

## Factors that could lead to a downgrade

- » Limited near term risk, absent a severe and prolonged market downturn that materially reduces the university's wealth; long term endowment underperformance
- » Prolonged erosion of brand or competitive position reflected in weakened net tuition revenue growth or deteriorating operating performance
- » Material change in the university's risk appetite, including greater use of leverage
- » For short-term ratings, inability to maintain adequate daily liquidity coverage of demand debt or deterioration in long-term credit quality

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### UNIVERSITY OF NOTRE DAME DU LAC, IN

	2019	2020	2021	2022	2023	Median: Aaa Rated Private Universities
Total FTE Enrollment	12,494	12,624	12,947	12,907	12,785	8,799
Operating Revenue (\$000)	1,494,231	1,477,258	1,523,242	1,813,402	1,977,504	1,813,402
Annual Change in Operating Revenue (%)	5.91	-1.14	3.11	19.05	9.05	17.49
Total Cash & Investments (\$000)	12,310,427	13,215,036	20,051,184	18,598,568	18,647,784	14,990,306
Total Adjusted Debt (\$000)	1,353,535	1,513,462	1,390,422	1,329,115	1,403,490	1,329,115
Total Cash & Investments to Total Adjusted Debt (x)	9.10	8.73	14.42	13.99	13.29	8.35
Total Cash & Investments to Operating Expenses (x)	9.08	10.21	16.09	13.14	11.68	10.84
Monthly Days Cash on Hand (x)	841	860	1,664	1,251	1,139	1,151
EBIDA Margin (%)	18.79	22.46	28.23	30.39	27.11	23.87
Total Debt to EBIDA (x)	4.52	4.19	3.04	2.36	2.60	5.15
Annual Debt Service Coverage (x)	5.99	7.34	8.89	11.91	11.37	5.55

Source: Moody's Investors Service

## Profile

Located in Notre Dame, Indiana, the University of Notre Dame du Lac was founded in 1842 by the Congregation of Holy Cross. It is a large private Catholic research university, with a residential undergraduate program and graduate and professional programs. For fiscal 2023 the university reported \$1.98 billion of operating revenue and roughly \$18.6 billion in cash and investments.

## Detailed credit considerations

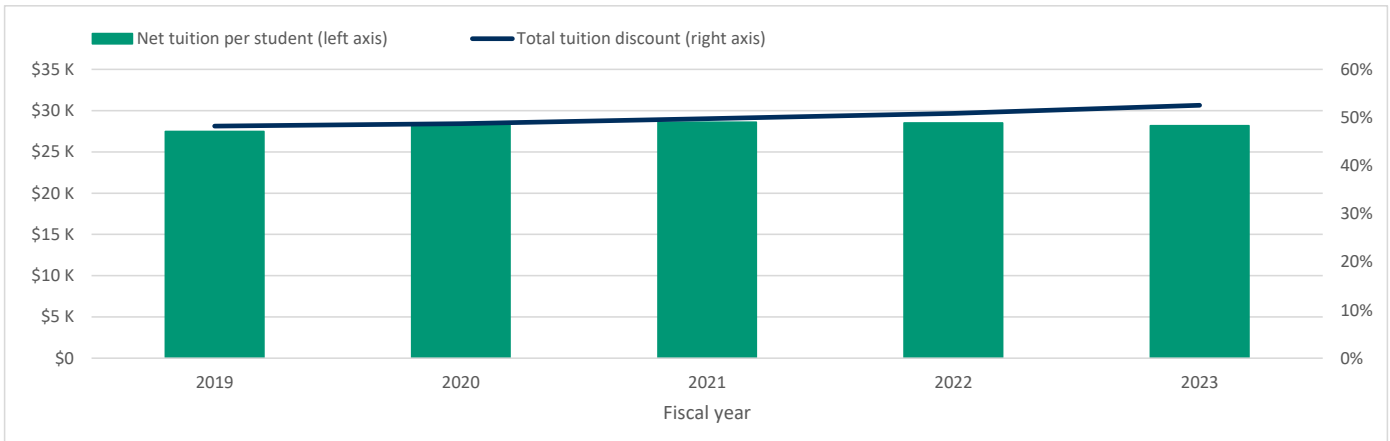
### Market profile

Notre Dame's credit profile strongly benefits from its exceptional brand and strategic positioning, evidenced by consistently strong student demand and notable pricing power particularly at the undergraduate level, and a demonstrated history of strong philanthropic support.

The university is very selective, admitting just 12.4% of applicants in fall 2023. Nearly 60% of accepted students enroll - a favorable matriculation rate even among elite institutions - and enrollment has held steady through various economic cycles and the pandemic, reaching 12,785 FTEs as of 2023, up 1.3% over the past four years. More telling of the university's brand strength is its pricing power; over the last decade net tuition per student has increased 22%, in direct opposition of national trends for private higher education, and particularly notable given the university's need-blind admissions and commitment to meet full need. ND's management has indicated a reinforced commitment to reaching more income sensitive students that are highly qualified, with Pell-eligible and first generation students comprising 20% of the 2023-24 entering class. Yet with ND's particularly strong strategic position, some variance in its student pay mix is not expected to impact overall operating income.

Exhibit 3

Net tuition per student has held steady during the past five years despite a slight uptick in the tuition discount rate; overall stability expected to continue



Source: Moody's Investors Service

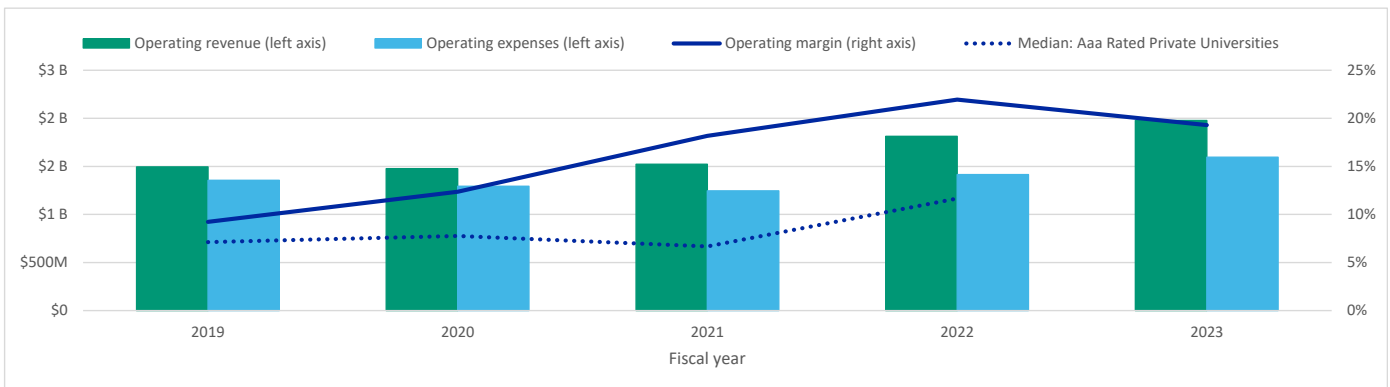
### Operating performance

Operating performance will remain strong despite lingering inflationary pressures given ND's comprehensive and detailed budget and expense management, as well as its ability to generate revenue growth from multiple sources. Fiscal 2023 operating performance was quite strong, with an EBIDA margin of 27% and operating margin of 19%, consistent over the last three years.

ND's operating revenue continues to grow, driven by an extraordinary investment return on its endowment in 2021 that has allowed for sizeable endowment draws in 2022 and 2023. Despite weaker investment returns over the past two years, ND's core endowment position has remained exceptionally strong; assuming Moody's 5% annual draw, operating revenue from the endowment has increased by 39% since fiscal 2021. While ND's actual endowment draw was somewhat lower for fiscal 2023, the trend is nonetheless the same - the university's notable wealth is a substantial credit benefit to operating performance, and is expected to remain so in the near term. Further, ND's active expense controls continue to compliment revenue gains, resulting in consistent, strong operating margins that well outperform Aaa-rated peers.

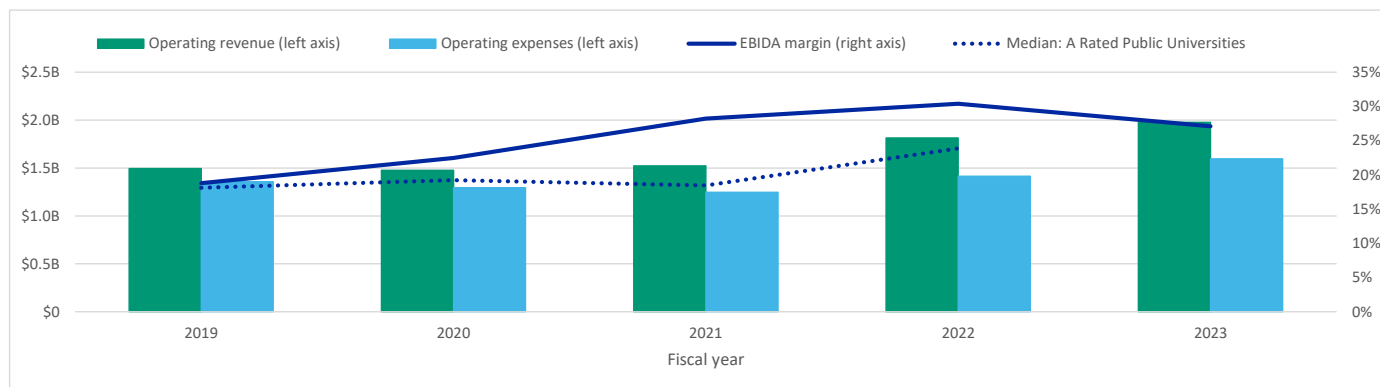
Exhibit 4

Strong operating revenue growth is complimented by solid expense controls, resulting in consistently strong operating margins



Source: Moody's Investors Service

Exhibit 5



Source: Moody's Investors Service

### Wealth and liquidity

ND will continue to retain an exceptional level of financial resources, among the wealthiest of all universities, comparing favorably to elite peers. The university has dedicated specific resources to donor outreach, with efforts bearing fruit consistently over the past several years. Coupled with strong investment management, ND's wealth is expected to be a continued key credit strength.

Total cash and investments grew to \$18.65 billion in 2023, down somewhat from a historic high in 2021, but still more than 50% higher than fiscal 2019 levels. Fiscal 2023 marked the inaugural year of the University's newest fundraising initiative, "For Good". Central to the initiative's fundraising objectives is support for undergraduate financial aid, demonstrating ND's commitment to building classes of more socio-economically diverse students.

Overall wealth provides robust coverage of operating expenses at roughly 11.7x, allowing for substantial flexibility (see Exhibit 1). Available liquidity provides for a robust 1,139 days of monthly cash on hand.

### Leverage and coverage

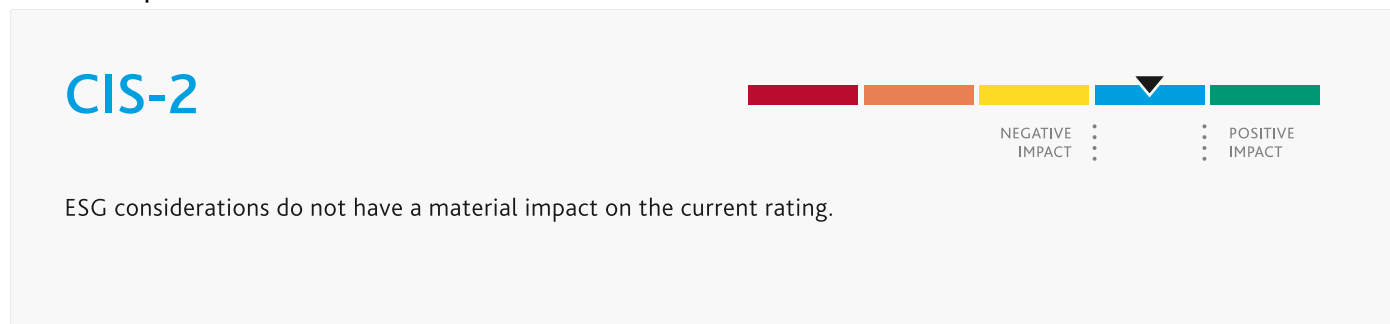
ND's leverage profile remains favorable relative to peers despite annually strong capital spending and a debt structure that is primarily in bullet form. Total cash and investments cover total adjusted debt a very strong 13x. Annual debt service coverage in fiscal 2023 is roughly 11x, though the university has limited debt amortization given its bullet maturities. However, the university does have internal reserves dedicated to debt repayment. The university's commercial paper program is supported by the university's substantial daily liquidity, as well as multiple lines of credit, collectively providing excellent coverage of demand obligations. Despite a recent slowdown in capex, the university's age of plant is a low 12.4 years and projected future cash flow is expected to be adequate for near-term capital needs.

### ESG considerations

#### University of Notre Dame du Lac, IN's ESG credit impact score is CIS-2

Exhibit 6

#### ESG credit impact score



Source: Moody's Investors Service

University of Notre Dame's ESG Credit Impact Score is neutral-to-low (**CIS-2**). Excellent brand strength, strong financial stewardship and substantial financial reserves partially mitigate the university's ESG risk exposures.

Exhibit 7

#### ESG issuer profile scores



Source: Moody's Investors Service

#### Environmental

Notre Dame's exposure to environmental credit risks is (**E-2**). While the university's primary location in South Bend, Indiana exposes it to potential future high heat and water stress, other environmental risks are low. The university has numerous sustainability measures in place with a goal of becoming carbon neutral before 2050.

#### Social

Notre Dame's exposure to social credit risks is (**S-2**) across nearly all categories. The social risk score compares favorably to the sector, incorporating the university's excellent market demand and reputation. Historical revenue gains across all earned revenue lines demonstrates Notre Dame's positive customer relations and exhibits its ability to respond to evolving consumer preferences and maintain donor engagement. Despite competing for high-level tenured faculty, human capital risks are low given Notre Dame's more limited research profile and lack of exposure to patient care labor risks.

#### Governance

Notre Dame's governance risk is (**G-2**). Financial strategy and risk management, as well as management credibility and track record, compare favorably to peers with best in class financial management practices and a track record of strong operating performance and market returns. Board structure risk is moderately negative, like a majority of the sector, given its size. Governance powers of the Board are granted by University Fellows, which consist of an evenly split number of clerical and lay members. All of the general powers of governance is maintained by the Board, except for a limited number of reserved powers.

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 principal methodology used in this rating was [Higher Education Methodology](#) published in August 2021. The Higher Education 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, financial policy and strategy, and operating environment on a qualitative basis.

Exhibit 8

<b>Scorecard Factors and Sub-factors</b>	<b>Value</b>	<b>Score</b>
<b>Factor 1: Scale (15%)</b>		
Adjusted Operating Revenue (USD Million)	1,978	Aa
<b>Factor 2: Market Profile (20%)</b>		
Brand and Strategic Positioning	Aaa	Aaa
Operating Environment	A	A
<b>Factor 3: Operating Performance (10%)</b>		
EBIDA Margin	27%	Aaa
<b>Factor 4: Financial Resources and Liquidity (25%)</b>		
Total Cash and Investments (USD Million)	18,648	Aaa
Total Cash and Investments to Operating Expenses	11.7	Aaa
<b>Factor 5: Leverage and coverage (20%)</b>		
Total Cash and Investments to Total Adjusted Debt	13.3	Aaa
Annual Debt Service Coverage	11.4	Aaa
<b>Factor 6: Financial Policy and Strategy (10%)</b>		
Financial Policy and Strategy	Aaa	Aaa
Scorecard-Indicated Outcome		Aa1
Assigned Rating		Aaa

Source: Moody's Investors Service

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