MOODY'S INVESTORS SERVICE

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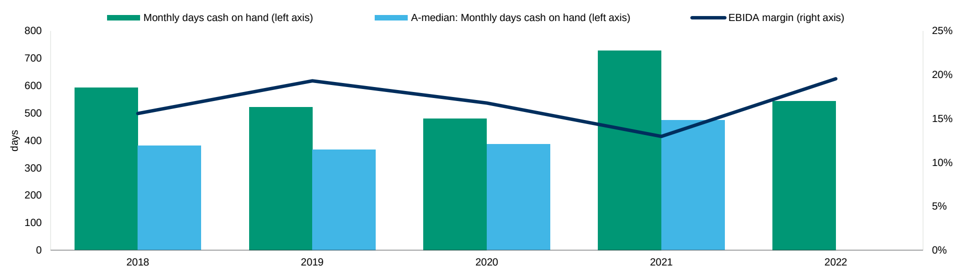
American University, DC

Strong operating performance and fiscal discipline temper high financial leverage

American University's (A1 stable) credit quality reflects its very good brand and strategic positioning as a large, comprehensive university, with revenue of $731 million and 12,660 FTE students, leveraging on its location in the District of Columbia. Disciplined financial oversight and multi-year planning contributes to its track record of solid operating performance, particularly given a high reliance on student charges and near-term strategic use of reserves. Solid liquidity at 545 monthly days cash on hand provides financial flexibility. While absolute wealth is good at $1.3 billion for fiscal 2022, cash and investments to operating expenses and total adjusted debt are weaker relative to reputational peers.

Exhibit 1
Strong liquidity and solid operating performance underpin financial flexibility



Source: Moody's Investors Service

AU's market position will remain sound due to its desirable DC location, large size and broad curriculum, with programming strengths around public affairs, communication, international service and law. Very good brand and strategic positioning augment prospects, especially important given substantial competition and weak demographic trends within the DC metro and Mid-Atlantic regions where nearly half of its 12,660 full-time equivalent (FTE) enrollment originates. Favorable retention and graduation rates, as well as moderate student debt to potential earnings enhance AU's brand. The fall 2022 first-time freshman of 1,768 students was purposefully less than the sizable 2,372 student fall 2021 cohort and more aligned with prior fall counts.

Planning around tuition pricing and rising financial aid needs will continue to be a key budget priority. Favorably, a sizable 38% of AU's students are graduate and professional degree seeking, with very limited financial aid provisions. Roughly three-quarters of AU's fiscal 2022 operating revenue of $731 million is sourced from student charges. While tuition is competitively priced relative to peer and aspirant colleges, rising financial aid needs are being addressed through a mix of strategic allocations and gains in gift and endowment support. AU's discount rate was a moderate 30.5% in fiscal 2022.

Disciplined financial stewardship and two-year budget planning underpin a track record of strong operating performance. The fiscal 2022 EBIDA margin of 20% covered interest-only debt service by 5.2x. The fiscal 2023 and 2024 budgets incorporate strategic investments in compensation and financial aid, which are anticipated to be funded with roughly $90 million in reserves. AU's strong history of reserve growth from earned revenue provides some leeway for liquidity use. However, as a result, fiscal 2023 through 2024 EBIDA margins may be softer.

While student charges are the majority of AU's revenue, research-related grants and contracts contributed about 8% and investment income and gifts contributed about 14% annually over the fiscal 2018-22 period, providing meaningful revenue distribution. Gift support is enhanced by the university's current $500 million comprehensive campaign, currently at 71% of its goal.

Cash and investments totaling $1.3 billion for fiscal 2022 and $919 million in monthly liquidity, or 545 monthly days cash on hand, provide financial flexibility. Total wealth is up a net 15% in the fiscal 2018-22 period, driven by investment returns 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. Total cash and investments cushioned expenses by 1.9x and 2.3x for fiscal years 2022 and 2021, respectively, compared to the A-median of 2.7x.

Moderately high leverage and debt burden remain manageable due to capable treasury management and oversight as well as no significant debt plans. Total adjusted debt of $745 million includes $741 million in taxable bonds with multiple long-term bullet maturities. Cash and investments covered fiscal 2022 total adjusted debt by 1.7x and 1.8x for fiscal years 2022 and 2021, respectively, compared to the A-median of 3.0x. AU's multi-year manageable capital plan of roughly $243 million will be largely funded with unspent bond proceeds and earmarked reserves.

Exhibit 2
American University, DC

	2018	2019	2020	2021	2022	Median: A Rated Private Universities
Total Fall FTE Enrollment	13,090	13,041	12,538	13,402	12,660	5,167
Operating Revenue ($000)	618,405	690,307	675,941	564,639	730,848	203,354
Annual Change in Operating Revenue (%)	5.1	11.6	-2.1	-16.5	29.4	-3.2
Total Cash & Investments ($000)	1,107,386	1,087,045	1,043,952	1,316,815	1,276,590	560,705
Total Debt ($000)	561,375	640,500	640,500	740,500	745,406	174,084
Total Cash & Investments to Total Adjusted Debt (x)	1.9	1.7	1.6	1.8	1.7	3.0
Total Cash & Investments to Operating Expenses (x)	1.9	1.7	1.7	2.3	1.9	2.7
Monthly Days Cash on Hand (x)	592	523	480	729	545	474
EBIDA Margin (%)	15.6	19.3	16.8	13.0	19.5	15.6
Total Debt to EBIDA (x)	5.8	4.8	5.6	10.1	5.2	4.8
Annual Debt Service Coverage (x)	2.2	5.2	4.9	2.9	5.2	3.1

Source: Moody's Investors Service

Issuer profile

American University is a private non-sectarian research institution situated in a residential area of northwest Washington, DC. The university provides a comprehensive array of undergraduate, graduate, and professional programs including law, business, public affairs and international service. For fiscal 2022, AU recorded $731 million in operating revenue and for fall 2022, enrolled 12,660 full-time equivalent (FTE) students.

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