

## University of Western Ontario

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# University of Western Ontario

## Key Rating Factors

**Issuer Credit Rating**  
AA/Stable/--

<b>Enterprise profile</b>	<b>Financial profile</b>
<p>A very strong enterprise profile that is characterized by a healthy demand profile and market position.</p> <ul style="list-style-type: none"><li>• The University of Western Ontario benefits from excellent student quality metrics and a solid market position.</li><li>• Its core catchment area in the Province of Ontario has excellent economic fundamentals and supportive demographics.</li><li>• Offsetting these strengths somewhat is Western's more limited geographic draw relative to that of some rated Canadian peers because it attracts most of its students from Ontario.</li></ul>	<p>Western's very strong financial profile will help it weather near-term challenges.</p> <ul style="list-style-type: none"><li>• Western has generated very strong operating margins in the past several years, largely fueled by enrollment growth, helping to maintain a moderate debt burden.</li><li>• The COVID-19 pandemic and the associated restrictions on campus activities will pressure Western's financial performance in the near term, especially if enrollment falls materially in the next fiscal year.</li><li>• Despite material near-term challenges, we believe that Western's robust liquidity will help to sustain the university's credit profile.</li></ul>

## Outlook

The stable outlook reflects S&P Global Ratings' expectation that, in the next two years, Western will be able to manage its budgetary pressures to generate strong operating margins greater than 5% of adjusted operating expenses on average, its levels of available resources will remain high, and it will maintain a healthy enrollment and demand profile. The outlook also reflects our expectation that the university's relationship with the province will be stable.

### Downside scenario

We could lower the ratings in the next two years if the COVID-19 pandemic and associated travel restrictions and social distancing measures persist well into the next fiscal year, materially disrupting the university's operations and impairing enrollment levels and revenue, resulting in significantly weaker financial performance and available resources. Furthermore, evidence of negative government intervention, a strengthening of our assessment of the link between the university and province, or a significant reduction in our assessment of Western's resilience to an Ontario default scenario could also cause us to lower the ratings on the university, potentially to on par with or below those on the province, depending on the severity.

### Upside scenario

An improvement in Western's already healthy enterprise profile could lead to a positive rating action. Specifically, a selectivity ratio consistently below 50% or increased geographic diversification of the student body, with out-of-province students accounting for more than 30% of total full-time equivalents (FTEs), could lead to a positive rating action in the next two years.

## Rationale

The ratings reflect Western's stand-alone credit profile, which S&P Global Ratings assesses at 'aa'. This reflects our combined assessment of the university's very strong enterprise and financial profiles. The ratings also reflect our opinion of a moderately high likelihood that the Ontario government would provide extraordinary support in the event of financial distress.

We believe the pandemic and resulting prevention measures represent a near-term risk to Western and other universities we rate. They had a modest impact on the university's overall financial results in fiscal 2020 (year ended April 30), and total enrollment increased in fall 2020, despite ongoing restrictions to on-campus learning and other activities. However, Western has budgeted for higher operating expenses and weaker revenue from ancillary operations in fiscal 2021 and we believe that the threat of a more protracted recovery and ongoing restrictions on campus activities and student mobility pose a material risk to longer-term student demand and enrollment growth, particularly international students, which could affect the university's enterprise and financial profiles.

Founded in 1878, Western is a research-intensive, doctoral university. It is in the southwestern Ontario city of London, which has a population of about 384,000. At fall 2020, Western had 35,222 FTE students on its main campus, a 4.4%

increase from the previous year. The university has 12 faculties and schools, including a school of medicine and dentistry, law, engineering, and business. It also has affiliations with three research institutes, three university colleges, and two teaching hospitals.

Western's very strong enterprise profile is characterized by a healthy demand profile and market position, and good management and governance practices. In fall 2020, its first-year selectivity rate (offers-to-applications) of 66% was higher than typical as more offers were sent out in anticipation of a potential decline in enrollment, and we expect that it will moderate back to about 55% within the next two years as it seeks to contain enrollment growth. However, as a consequence, Western's total headcount in fall 2020 increased 3.1%, with growth in undergraduates helping to offset a modest decline in international enrollment. A high proportion of students (78%) are from Ontario, and we therefore view Western's student draw as having limited geographic diversity relative to that of some peers. The university is working toward increasing its international student body and diversifying the source countries, which could support revenue diversity. Western has consistently demonstrated strong retention rates greater than 90% and six-year graduation rates averaging almost 84% in the past five years. Also supporting our assessment is our view of the higher education sector's low industry risk, with counter-cyclicality and low competitive risk and growth. In addition, the university benefits from excellent economic fundamentals, as measured by the province's GDP per capita, which we estimate to be about US\$43,400 in 2020; good income indicators; and moderate employment and population growth projections.

In our view, the university's senior administration has sufficient depth and expertise, and has demonstrated consistent operational effectiveness, as evidenced by a track record of healthy operating margins that we believe lends stability to the credit profile. Overall, we view Western's transparency and disclosure to be good, with policies, procedures, and risk management capacity to adequately identify, monitor, and mitigate risks. The university conducts its activities according to a four-year operating and capital plan that contains what we view as appropriate assumptions. It prepares externally audited financial statements, which have been unqualified; and has formal policies for endowments, investments, debt, and reserves.

We assess Western's financial profile as very strong, supported by very strong operating margins of almost 13% on a three-year weighted-average basis. Although margins declined modestly in fiscal 2020, due to the 10% cut to domestic tuition imposed by the province and the early impacts of the pandemic, healthy enrollment growth, averaging about 2% over the past five years, has helped the university maintain solid financial performance. Western updated its fiscal 2021 budget as of Oct. 31, 2020, to reflect higher-than-budgeted revenues, largely due to higher-than-expected enrollment for first-year undergraduates and part-time students, as well as higher retention of upper year students. This was offset by higher-than-budgeted pandemic-related expenditures, namely health and safety supplies and upgrades, enhanced building maintenance and security, conversion to on-line course delivery, enhanced student service initiatives, and IT infrastructure expansion. In addition, we expect that ancillary operations (housing, parking, food services, etc.) will generate weaker results and that operating margins will be pressured in the next several years.

Similar to that of Canadian peers, the university's limited flexibility to increase its student-generated revenue somewhat offsets its strong financial performance. This is primarily because Ontario monitors and guides domestic tuition rates and student aid (through the tuition framework), and enrollment expansion (through operating grants,

which are not expected to increase in real terms).

Western maintains what we view as very healthy liquidity. At fiscal year-end 2020, our measure of its available resources (internally restricted net assets plus internally restricted endowments) increased to C\$968 million from C\$907 million the year before. This was sufficient to cover more than 80% of adjusted expenses on a three-year weighted-average basis. At fiscal year-end 2020, total cash and investments increased slightly to C\$2.3 billion from C\$2.2 billion in 2019, equal to almost 6.5x Western's outstanding debt and more than 2x our measure of available resources, indicating very robust liquidity. In our view, this high level of cash bolsters our assessment of the financial resources potentially available to Western under a stress scenario. Although the level of available resources could decline somewhat in the next several years due to the unpredictable trajectory of the pandemic, we believe that Western's liquidity will remain more than sufficient to fund all debt service requirements and provide a significant buffer against medium-term stress.

Western has the eighth-largest endowment among Canadian universities, with a market value of C\$805 million at fiscal year-end 2020; this is largely flat year-over-year. Almost C\$31 million of endowed investment returns were allocated for spending in fiscal 2020, in line with its spending policy of 4% of the five-year average market value of the endowment.

In our view, the university has a moderate debt burden. At fiscal year-end 2020, total gross debt outstanding was C\$352.6 million and consisted of: two 40-year fixed-rate bullet debentures totaling C\$288.7 million (maturing in 2047 and 2057); C\$9.9 million related to Western's research park; and C\$54 million in amortizing banker's acceptances (from a C\$100 million nonrevolving facility maturing in fiscal 2027). We view Western's debt structure as aggressive because more than 50% of its total debt is non-amortizing; however, the university has established sinking funds to help repay the bullet debentures (C\$31.9 million at the end of fiscal 2020), which partially mitigates the associated risks. Our estimate of maximum annual debt service (which includes an estimated principal component for non-amortizing debt) equals 3.5% of adjusted fiscal 2020 expenses. In our view, the university's debt burden is manageable, given Western's good operating performance and the healthy level of available resources equal to 2.5x debt based on a three-year weighted average. The university does not expect to take on additional external debt in the next several years and we believe that debt service coverage will remain more than adequate throughout our outlook horizon.

Among rated Canadian universities, Western is the only one to sponsor a pure defined-contribution pension plan for current employees that shifts the plan's investment risks away from itself. This contrasts with some institutions that face the potential requirement to make special solvency payments on their pension plan deficits. The university has a legacy defined-benefit plan that was in a very modest surplus position of C\$323,000 at fiscal year-end 2020, and we do not consider the liabilities associated with this plan significant. The majority of Western's postemployment liabilities relates to unfunded nonpension benefits, such as medical and dental. At fiscal year-end 2020, these liabilities amounted to C\$561.8 million, up 2.8% from the previous year. The university took steps to contain the costs of these liabilities in previous labor negotiations.

Based on public disclosures, we do not believe that Western has any additional contingent liabilities that could materially affect our view of its credit profile.

### **Moderately high likelihood of extraordinary provincial government support**

In accordance with our criteria for government-related entities, our view of Western's moderately high likelihood of extraordinary government support reflects our assessment of the university's important role in the province, given that postsecondary education is one of Ontario's priorities in both expenditure and mandate (after health care and school boards), despite recent changes to university funding. Moreover, our assessment of Western's important role recognizes the absence of viable private alternatives. It also reflects the university's size, strong reputation, and research capabilities, which would make it hard to replace. The province's oversight, program-approval rights, and tuition regulation over Western suggest a strong link to the government. Also supporting this view is that the province provides substantial operating grants, which account for about 20% of the university's total revenue, and it appoints four of 26 board members.

We rate Western two notches above Ontario. The differential reflects our view that there is a measurable likelihood that the university's substantial financial resources would meet ongoing operational and debt service requirements should the government default and temporarily suspend payments to Western. In addition, the differential reflects our belief that the university operates independently of the Ontario government as an autonomous legal entity with ownership of its assets. The board is responsible for the management, administration, and control of Western's property and other assets and all business affairs. We consider the risk of extraordinary negative government intervention to be low, given the university's operational independence, important public policy role, and the government's hands-off approach to the sector.

In January 2019, the government of Ontario imposed a 10% reduction to domestic tuition for the 2019-2020 academic year and a freeze in 2020-2021. Furthermore, the province did not provide additional grant revenue to offset the tuition cut and has yet to release an updated tuition framework beyond fiscal 2021. Neither the federal nor provincial government has announced any material direct financial support for universities to offset impacts stemming from the COVID-19 pandemic, although the federal government introduced an income support program for students, which should help mitigate affordability concerns. Although we are not expecting any material increase in ongoing operating or capital funding from the province in the medium term, we continue to believe that there is a moderately high likelihood that the province would provide support to Western in a distress scenario.

As vaccine rollouts in several countries continue, S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic and its economic effects. Widespread immunization, which certain countries might achieve by midyear, will help pave the way for a return to more normal levels of social and economic activity. We use this assumption about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: [www.spglobal.com/ratings](http://www.spglobal.com/ratings)). As the situation evolves, we will update our assumptions and estimates accordingly.

## **Key Statistics**

Table 1

University of Western Ontario -- Selected Indicators						
(Mil. C\$)	--Fiscal year-end April 30--					Medians for 'AA' U.S. public colleges & universities*
	2021	2020	2019	2018	2017	2019
<b>Enterprise profile</b>						
Full-time equivalent enrollment (no.)	35,222	33,737	33,353	33,059	32,528	36,667
Selectivity rate (%)	66.3	53.4	54.9	51.5	58.1	69.6
Undergraduates as a % of total enrollment	80.6	79.9	80.5	80.5	81.5	79
Retention rate (%)	N.A.	94.4	93.6	93.4	93.1	86
Graduation rates (%)	85.0	82.9	83.4	83.2	83.4	MNR
<b>Financial profile</b>						
Adjusted operating revenue	N.A.	1,290.2	1,305.6	1,259.4	1,169.1	MNR
Adjusted operating expense	N.A.	1,160.7	1,146.4	1,100.3	1,084.3	MNR
Net adjusted operating margin (%)†	N.A.	11.2	13.9	14.5	7.8	1.5
Student dependence (%)	N.A.	35.1	35.3	34.6	34.9	41.2
Government operating grant dependence (%)	N.A.	20.6	20.4	20.9	19.2	18.3
Investment income dependence (%)	N.A.	3.1	7.1	6.3	10.5	1.4
Outstanding debt	N.A.	352.6	360.8	376.6	288.0	808.1
Maximum annual debt service/total operating expense (%)	N.A.	3.5	3.7	3.9	3.2	3.6
Available resources to adjusted operating expenses (%)	N.A.	83.4	79.1	71.1	64.3	36.7
Available resources to total debt (%)	N.A.	274.7	251.5	207.8	242.0	92.9

\*U.S. median figures are in U.S. dollars. †As % of adjusted operating expense. N.A.--Not available. MNR--Median not reported.

## Related Criteria

- General Criteria: Methodology: Not-For-Profit Public And Private Colleges And Universities, Jan. 6, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Outlook For Global Not-For-Profit Higher Education: Empty Chairs At Empty Tables, Jan. 20, 2021
- Australia, Canada, Mexico, And U.K. University Medians Report: Pandemic-Related Pressures Could Upset Recent Credit Metric Stability, Oct. 20, 2020
- The Higher Education Sector Outlook Is Now Negative For Australia, Canada, Mexico, And The U.K., May 14, 2020

**Ratings Detail (As Of February 11, 2021)\*****University of Western Ontario**

Issuer Credit Rating	AA/Stable/--
Senior Unsecured	AA

**Issuer Credit Ratings History**

26-Feb-2013	AA/Stable/--
14-Dec-2010	AA/Negative/--
04-May-2007	AA/Stable/--

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.



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