MOODY'S RATINGS

CREDIT OPINION
9 August 2024

Update

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RATINGS

University of Toronto

Domicile	Ontario, Canada
Long Term Rating	Aa1
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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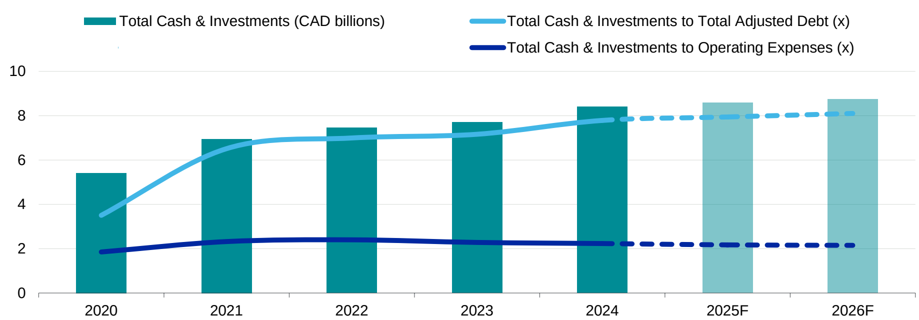
University of Toronto (Canada)

Update following rating affirmation

Summary

The credit profile of the University of Toronto (U of T, Aa1 stable) reflects its global brand recognition and flagship status as Canada's largest and top-ranked public post-secondary institution, resulting in consistently high student demand and research funding and highly successful fundraising results. Exceptional levels of cash and investments, including endowment funds, provide significant coverage of debt and expenses. The credit profile also reflects diversified revenue sources and a lower reliance on provincial grant funding than most Canadian peers, which partly shield it from provincial credit challenges including provincially mandated domestic tuition fee freezes. A high international student concentration and a 2-year federal cap on international students create revenue risk, although we expect enrolment demand to remain very strong in the next few years.

Exhibit 1
Growth in cash and investments ensures U of T maintains ample coverages of debt and expenses



Years ending April 30
Sources: University of Toronto and Moody's Ratings

Credit strengths

» Exceptional wealth and liquidity and low leverage

» Global brand recognition and research strength along with consistent enrolment growth

» Very strong governance and management which underpin reputation

Credit challenges

» Low EBIDA margins stemming from cost inflation and provincial policies

» Challenges related to international student concentration and growth

Rating outlook

The stable outlook reflects our view that the university will be able to minimize the period of low EBIDA margins despite the constrained provincial funding environment and mandated limits on domestic tuition fee increases. This is supported by continued very strong student demand, management's revenue raising and cost-cutting initiatives and exceptional wealth and reserve levels. At the same time, we do not expect to see new debt accumulation, which will limit the rise in leverage.

Factors that could lead to an upgrade

The rating could be upgraded following a pronounced and sustained increase in operating margins, along with significant easing of provincial funding restrictions on tuition fees and an increase in provincial operating grants to the university.

Factors that could lead to a downgrade

The rating could be downgraded if there is an inability to substantially bolster EBIDA margins, which could stem from declining enrolment, including from international students, along with continued provincial tuition fee caps on domestic students, limited increases in operating grants to the university, or an inability to rein in expenditure growth. A material decline in cash and investment balances and investment returns, or a significant rise in leverage, would also contribute to downward rating pressure.

Key indicators

Exhibit 2
University of Toronto

Year ending April 30	2021	2022	2023	2024	2025F	2026F
Operating revenue (CAD millions)[1]	3,412.4	3,450.9	3,533.8	3,697.3	3,766.5	3,886.5
EBIDA margin (%)	19.4	17.2	12.3	5.9	2.9	3.0
Total cash and investments (CAD millions)	6,949.0	7,456.0	7,706.0	8,409.0	8,577.2	8,748.7
Total Cash & Investments to Total Adjusted Debt (x)	6.51	6.99	7.16	7.79	7.94	8.10
Total Cash & Investments to Operating Expenses (x)	2.32	2.40	2.28	2.23	2.17	2.15
Annual debt service coverage (x)	17.5	15.7	8.9	4.4	2.2	2.4

[1] Revenue is net of scholarship expenses.
Sources: University of Toronto and Moody's Ratings

Detailed credit considerations

Baseline credit assessment

On August 2, 2024, we affirmed U of T's aa1 baseline credit assessment (BCA) and Aa1 long-term issuer and senior unsecured debt ratings, with a stable outlook.

U of T's credit profile also reflects a moderate likelihood of extraordinary support coming from the Province of Ontario (Aa3 positive) in the event that the university faced acute liquidity stress.

Exceptional wealth and liquidity and low leverage

The university maintains exceptional levels of wealth and liquidity from continued growth in cash and investments. Adjusted total cash and investments, including endowments, stood at CAD8.4 billion at April 30, 2024, providing 7.8x coverage of total adjusted debt and 2.2x coverage of operating expenses, ratios which compare favourably against global peers. We expect that reserves will continue to be replenished from future operating surpluses and typically strong investment returns.

U of T's endowment portfolio is the largest among Canadian universities with a balance of CAD3.6 billion at April 30, 2024, representing a steady growth over the last five years, and a 9% growth relative to 2023. The endowment portfolio assets, along with the assets of a few other long-term funds, are invested in a pooled vehicle (Long-Term Capital Appreciation Pool). Despite overall strong returns, the pool's returns have exhibited some annual volatility.

U of T's strengths have also been evident in its highly effective fundraising activities, leveraging its brand name and reputation to maintain a competitive advantage in attracting donations relative to peers, reaching nearly CAD2 billion already of its fundraising campaign (Defy Gravity) launched in 2021 with a goal of reaching CAD4 billion in donations over 10 years. The university receives significant donations and gifts for research and capital projects, which demonstrate its ability to capitalize on its brand name and profile and to generate sizeable philanthropic interest and donations despite competition for fundraising dollars both domestically and internationally.

Overall leverage is low relative to peers, with very strong debt affordability that exceeds most peers. The university last issued debentures in 2011 and we do not anticipate new debt issues over the next three years, as the university will instead look to finance capital projects from non-debt sources, including operating reserves, provincial and federal funding, and donations. Debt affordability, as measured by annual debt service coverage, stood at 4.4x at April 30, 2024, a level that is in line with most peers but has declined in recent years given falling EBIDA levels.

At the same time, pension-related pressures have significantly eased in the last three years. While U of T historically recorded large pension deficits with large unfunded pension liaiblities, it transitioned to a jointly sponsored defined benefit pension plan (the University Pension Plan Ontario (UPP)) as of July 1, 2021, with several other universities. As of December 31, 2023, the UPP was in a surplus of CAD249.3 million. Under the UPP, U of T is required to fund any future deficits on the assets and liabilities transferred into the plan for the first 10 years, which could create funding pressure on the university, however subsequently the costs will be gradually shared equally between participating employers and employees in the UPP. U of T also maintains a pension risk contingency of CAD89 million (2023-24; with a gradual decline to CAD50 million by 2026-27) to mitigate potential future declines in the funded status.

Global brand recognition and research strength along with consistent enrolment growth

U of T is Canada's largest and top ranked public post-secondary institution and one of the top 20 global schools in international rankings, underpinning its international brand. The university operates through three campuses: its main campus in downtown Toronto (the St. George campus), Mississauga and Scarborough. The strength of its reputation is supported by an ability to attract top talent for faculty, strong levels of selectivity of students, and exceptional research strength.

Along with its affiliations, including several hospitals, U of T has consistently been at the top of Canadian universities in securing federal government research funding from the three granting councils and from other federal programs. U of T's research strength is also evident in the number of prestigious research chairs, including “Canada Research Chairs” and “Canada 150 Research Chairs” at the university.

U of T's excellent market profile and global recognition has contributed to very strong enrolment demand even in the face of provincial funding and enrolment constraints. The number of total full-time equivalent (FTE) students has grown consistently each year to 88,652 in 2023-24, up more than 7% over the last five years.

Very strong governance and management which underpin reputation

We view the university's management and governance characteristics as very strong. The success of U of T in maintaining a very strong balance sheet and balancing its core operational financial results while meeting academic goals is underpinned by developing and executing multi-year frameworks for academic and financial planning, along with an emphasis on a decentralized style of governance and decision making.

Each faculty is responsible for developing its own budget and for adhering to self-imposed revenue and expense targets. This allows the faculties to be more entrepreneurial in areas where they see greater demand and by extension generate positive operating results. At the same time, control over collective bargaining is done centrally, which takes a certain amount of expenditure control out of the hands of individual faculties.

The University of Toronto Asset Management Corporation (UTAM), a non-share capital corporation whose members are appointed by the university, manages the investment assets of the university's Long-Term Capital Appreciation Pool (which includes assets of the endowment fund) and the Expendable Funds Investment Pool (including short- to medium-term funds). UTAM has also committed to sustainable initiatives to achieve net zero carbon emissions associated with the endowment portfolio by no later than 2050.

Low EBIDA margins stemming from cost inflation and provincial policies

U of T currently faces a number of operating challenges as a result of operating and capital cost escalation, and constraints related to provincial actions which adversely impact the university's fiscal profile and contributed to a sustained period of declining EBIDA margins.

U of T's key expense pressure derives from cost escalation of operating expenses, including rising salaries and benefits which currently make up approximately 60% of total expenses, and capital expenses including higher construction, materials and labour costs. In addition, the Ontario government's repeal of its own Bill 124 in early 2024 following a court decision that deemed it unconstitutional has added further wage pressure for the university. Bill 124 previously capped salary increases for public sector workers at 1% annually for the fiscal years 2020, 2021 and 2022. The repeal required U of T to negotiate higher salary increases for its labour unions, resulting in retroactive payments, which contributed to the 13% increase in salaries and benefits for 2023-24 over the prior year. At this time, the province has not confirmed any reimbursement of these expenses.

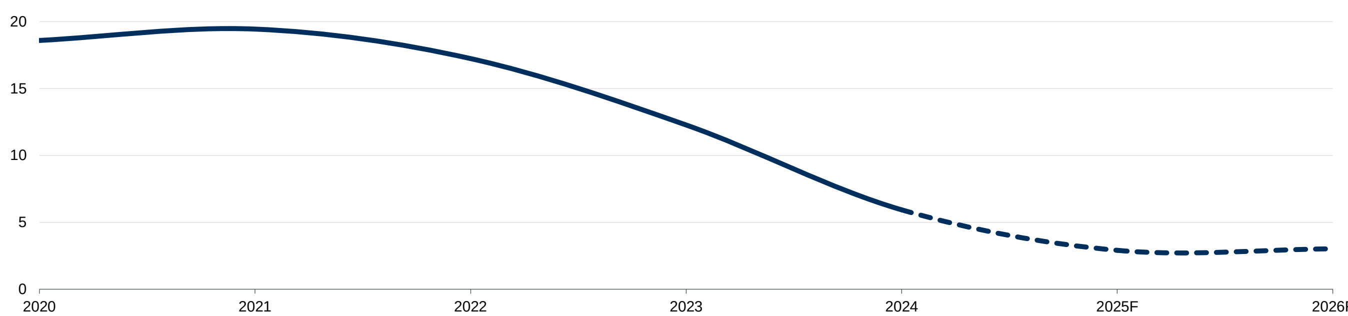
On the revenue side, limited growth in provincial operating grants, along with mandated freezes in domestic tuition rates over the last four years – which follows a mandated 10% reduction in 2019-20 - have resulted in modest shortfalls relative to budget forecasts. The mandated restrictions resulted in weaker tuition revenues for the university and weakened its ability to offset any international revenue pressure from domestic fees.

While higher than anticipated provincial grants and larger than average tuition fee increases in certain programs provide some offset, the combined impact of these challenges have contributed to a notable decline in EBIDA margins in recent years, falling to 5.9% in 2023-24 from 15.7% in 2021-22. We expect that EBIDA margins will improve starting in fiscal 2026 as the impacts of salary increases will have been fully absorbed, and given our view that the province will take action to either increase operating grants or ease some of the tuition restrictions.

Exhibit 3

EBIDA margins have constrained due to a combination of provincial actions and wage-driven expenditure growth

EBIDA margin (EBIDA as a % of total revenue)



Fiscal year ending April 30

Sources: University of Toronto and Moody's Ratings

The province is transitioning the framework for operating grants to universities to reflect a gradually increasing emphasis on performance metrics (relative to grants based on enrolment), where universities are benchmarked against their own past performance based on a number of indicators. Although the change could create some volatility in the amount of grants for U of T, we expect that the university will overall benefit from the new framework given its demonstrated ability to exceed its performance benchmarks. At the same time, U of T's lower reliance on provincial funding than the majority of rated domestic peers provides it with greater autonomy and flexibility to manage its finances and academic programs from own-source revenues.

Challenges related to international student concentration and growth

Although student demand for U of T's programs remains very strong relative to peers, a concentration in international students at around 30% total full-time equivalent (FTE) students exposes it to revenue concentration from a single region or country and to political risk from potential diplomatic tensions. Much of the historical international growth has come from Asia, and in particular from China, with the number of Chinese students representing around 58% of international students in 2023-24. The university made efforts in recent years to diversify its international student population from the significant concentration in Chinese students, with strong international student growth from India, Indonesia, Turkiye, Brazil and Iran.

In January 2024 the federal government announced a 2-year cap on international student permits, resulting in a 35% reduction in the number of international students that will be permitted to enrol in first year undergraduate programs for the 2024-25 and 2025-26 academic years relative to 2023-24 levels. Allocations were provided to each province based on their share of Canada's population, with each province subsequently allocating places to each higher education institution. U of T estimates that the cap resulted in a modest revenue shortfall for 2024-25 (around 1% of revenue), although we expect enrolment demand to remain very strong in the next few years and help offset these risks.

Extraordinary support considerations

Moody's assigns a moderate likelihood of extraordinary support coming from the Province of Ontario in the event that the university faced acute liquidity stress.

ESG considerations

University of Toronto's ESG credit impact score is CIS-2

Exhibit 4
ESG credit impact score

CIS-2

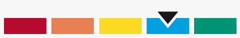
ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

The **CIS-2** Credit Impact Score reflects a low impact of ESG considerations on U of T's ratings.

Exhibit 5
ESG issuer profile scores

ENVIRONMENTAL
E-2



SOCIAL
S-3

GOVERNANCE
G-2

Source: Moody's Ratings

Environmental

The **E-2** issuer profile score (IPS) reflects the university's low exposure to environmental risks as its infrastructure is built to withstand the typical range of weather patterns. While it owns land and buildings which may be subject to environmental risks (e.g., asbestos in older buildings or clean-up following construction), these risks are modest and the university proactively manages them through its operations and facilities maintenance.

Social

The **S-3** IPS reflects pressures from a decline in the university entrance-age population in Ontario and from tuition revenue declines given provincial funding policies designed to address affordability, both on tuition setting and support to students. U of T has a higher share of international students than most rated universities, which helps offset pressures from domestic tuition fees but exposes it to political and economic risk including immigration trends and changes in policies on immigration eligibility. These pressures are mitigated by strong selectivity ratios and solid enrolment demand.

Governance

The **G-2** IPS reflects management's credibility, track record and ability to anticipate and mitigate risks. A robust institutional framework and prudent financial planning also contributes to multi-year balanced budgets and strong operating results. The university puts strong emphasis on a decentralized style of governance and decision making, allowing for funding allocations between the university's departments. The organizational structure is typical of Canadian universities with strong oversight from the Governing Council and committees, although provincial representation on the board exposes the university to potential government intervention.

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 BCA of aa1 assigned by the rating committee is in line with the scorecard indicated outcome of aa1. For details of our rating approach, please refer to the Higher Education (July 2024) and Government-Related Issuers (January 2024) methodologies.

Exhibit 6

University of Toronto
(fiscal year ending April 30, 2024)

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	2,751	Aaa
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	Aaa	Aaa
	Operating Environment	Aa	Aa
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	5.9%	Baa
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	6,118	Aaa
	Total Cash and Investments to Operating Expenses	2.2	Aaa
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	7.8	Aaa
	Annual Debt Service Coverage	4.4	Aaa
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	Aa	Aa
	Scorecard-Indicated Outcome		aa1
	Assigned BCA		aa1

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.
For non-US issuers, nominal figures are in US dollars consistent with the Higher Education Methodology.
Source: Moody's Ratings

Ratings

Exhibit 7

Category	Moody's Rating
UNIVERSITY OF TORONTO	
Outlook	Stable
Baseline Credit Assessment	aa1
Issuer Rating	Aa1
Senior Unsecured -Dom Curr	Aa1

Source: Moody's Ratings

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454