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CREDIT OPINION
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Loyola University of Chicago, IL

Update to credit analysis following upgrade to A1

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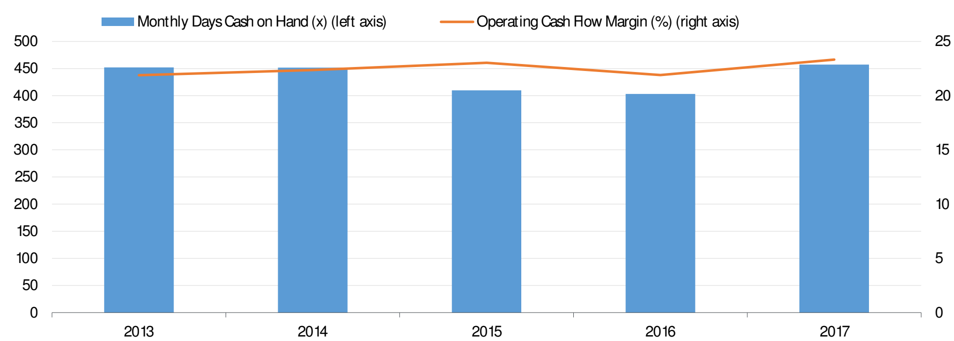
Summary

Loyola University of Chicago's (Loyola or LUC, A1 stable) very good credit quality reflects consistently strong operations driving growth in already excellent wealth and liquidity. The robust cash flow provides the funds for the rapid debt repayment reducing currently high debt. Although the quickly reducing debt improves Loyola's leverage profile, it will contribute to slower growth of cash and investments. Loyola's comparatively large scale and well established demand as a Jesuit urban comprehensive university in Chicago additionally support its favorable credit profile. The university operates in a highly competitive market, reflected in comparatively low yield rates on accepted first year students and contributing to only modest ability to raise tuition.

On March 23 we upgraded Loyola to A1, with a stable outlook.

Exhibit 1
Robust cash flow contributes to strong liquidity



Source: Moody's Investors Service

Credit strengths

- » Strong operating cash flow through excellent budgeting and fiscal oversight
- » Excellent unrestricted monthly liquidity of over 450 days cash
- » Rapid debt repayment with no near-term debt plans
- » Well-established demand as a large Jesuit Chicago urban comprehensive university

Credit challenges

- » Expected slower cash and investment growth through 2023 to fund debt pay-down
- » Fierce competition resulting in some enrollment volatility
- » Relatively high leverage, with debt-to-revenue and spendable cash and investment cushion comparatively lower than peers
- » Fundraising lower than peers

Rating outlook

The stable outlook reflects expectations of continued strong operating cash flow sufficient to maintain good liquidity even with large debt repayments, with generally stable student demand and tuition revenue growth.

Factors that could lead to an upgrade

- » Substantial growth in cash and investments
- » Revenue diversification, particularly from increased philanthropy
- » Strengthening of brand and reputation, resulting in further improvement in student demand and tuition pricing power

Factors that could lead to a downgrade

- » Weakened operating cash flow in light of large upcoming principal repayments
- » Deterioration in student demand, given a 75% revenue reliance on student charges
- » Material debt issuance if not offset by expected revenue and reserve growth

Key indicators

Exhibit 2
LOYOLA UNIVERSITY OF CHICAGO, IL

	2013	2014	2015	2016	2017	2017 Sensitivity w/ 2018 principal repayment	Median: A Rated Private Universities
Total FTE Enrollment	14,650	14,614	14,845	15,186	15,446	15,446	4,526
Operating Revenue ($000)	532,401	561,001	583,457	581,080	603,988	603,988	196,259
Annual Change in Operating Revenue (%)	3.5	5.4	4.0	-0.4	3.9	3.9	3.4
Total Cash & Investments ($000)	781,208	842,548	805,619	797,834	907,160	907,160	359,875
Total Debt ($000)	572,644	546,432	510,523	476,219	440,324	376,751	132,260
Spendable Cash & Investments to Total Debt (x)	1.1	1.3	1.3	1.3	1.7	2.0	1.6
Spendable Cash & Investments to Operating Expenses (x)	1.4	1.4	1.3	1.2	1.4	1.4	1.3
Monthly Days Cash on Hand (x)	452	452	410	403	457	457	321
Operating Cash Flow Margin (%)	21.9	22.4	23.0	21.9	23.3	23.3	15.3
Total Debt to Cash Flow (x)	4.9	4.4	3.8	3.7	3.1	2.7	4.6
Annual Debt Service Coverage (x)	5.2	4.8	2.6	2.4	2.7	2.7	3.0

2017 Sensitivity reflects principal repayment to date and full repayment of 2012 term loan
Total FTE Enrollment is fall enrollment of indicated year.
Source: Moody's Investors Service

Profile

Loyola University of Chicago is a private Jesuit, Catholic comprehensive multi-campus university. With headcount of nearly 17,000, it has a broad program offering for undergraduate, graduate and professional degrees, including medicine, law and nursing. In fall 2015 it launched Arrupe College, a two-year associates degree program for Chicago high school graduates, with the first graduating class in August 2017.

Detailed credit considerations

Market profile: large Jesuit urban university with gradually growing enrollment in highly competitive Chicago market

Loyola University of Chicago will see generally stable student demand and tuition revenue growth from its well-established position as a large Chicago-based Jesuit comprehensive university. LUC reported fall 2017 enrollment of over 15,400 full-time equivalent (FTE) students, up nearly 6% since fall 2014 and nearly 2% from the prior year. Nearly 30% of enrollment are graduate and professional students. Loyola has diversified program offerings, including medicine, nursing and law across the levels and include adult completion and certificate programs.

A critical strategic initiative is the expansion of its existing global footprint through growing study abroad and international students by leveraging the Jesuit global educational network. Also recognizing its mission of access and affordability, LUC launched the Arrupe College, a two year associate degree-granting college for under-served urban Chicago high school students who require substantial financial aid and academic support. After graduation, Arrupe students could transfer to LUC or another institution to complete their bachelor's degree. Additionally, LUC has expanded its online offerings for adult degree completion programs.

LUC's relationship with Trinity Health Credit Group (Trinity, Aa3 stable) is important as part of its strategy. In 2011 Trinity acquired Loyola University Health System (LUHS) from the university. LUC retained its medical and nursing schools, both located adjacent to LUHS' campus. As a condition of sale, Trinity paid $75 million toward LUC's Center for Translational Research and Education (CTRE) on the Health Sciences Campus that opened in 2016. Trinity also pays annual academic support payments adjusted annually for inflation, amounting to over $23 million in both fiscal 2016 and 2017. The university and Trinity collaborate on academic programs and campus facilities planning.

Operating performance: consistently strong cash flow amply cushioning debt service

With its excellent budgeting practices and oversight, Loyola is expected to continue to demonstrate strong cash flow generation providing good coverage of debt service. The fiscal 2017 cash flow margin of 23% was in the range of the prior four years, and provided a good 2.7x debt service coverage. LUC expects fiscal 2018 operations and cash flow to remain in a similar range.

Recognizing the highly competitive market and resulting pressures on net tuition revenue growth, the university is aggressively reviewing expenses to reduce its fixed expenses. It launched a review process with working groups to recommend ways to remove $8 million from its expense base and to seek new revenue opportunities.

Wealth and liquidity: good balance sheet reserves and strong liquidity

Loyola University of Chicago's cash and investments will remain satisfactory relative to its debt and operations. Growth slowed recently from the last phase of its capital spending plans and debt repayment but resumed growth in fiscal 2017. Total cash and investments of $907 million are up from the recent low of $798 million in fiscal 2016. Spendable cash and investments likewise grew to $745 million. Favorably, spendable cash and investments, including temporarily restricted funds, represent a substantial 82% of the total, providing the university good flexibility.

Fundraising is expected to grow as the university, led by the president, invests in its advancement function. The university hired a new Senior Vice President for Advancement with a strong background and experience from leading US universities. Fiscal 2017 annual gift revenues of nearly $22 million is up from $19 million the prior year. Currently not in a campaign, LUC is contemplating the launch of a campaign for its sesquicentennial campaign in 2020.

LIQUIDITY

Loyola's unrestricted liquidity will remain strong to provide an ample cushion for its debt and other commitments. Fiscal 2017 unrestricted monthly liquidity was $601 million, translating to 457 days cash. This is up from the low of $520 million in fiscal 2016 following the completion of its capital spending and beginning of large principal payments.

Leverage: moderately high but declining leverage from rapid debt amortization and growth in cash and investments

Already improving, LUC's debt load will continue to lessen from significant debt repayment through 2023. Spendable cash and investments cushion debt 1.7x in fiscal 2017, up from 1.3x from fiscal 2016 resulting from debt repayments and the growth in investments. The university will repay $173 million of principal through fiscal 2023 from cash flow and cash reserves and has no debt plans.

The university completed its total $800 million capital program funded by debt, gifts and internal sources. Its material capital investment should result in improved competitiveness and strategic positioning. LUC completed and opened its CTRE in Maywood and the School of Business building at the Water Tower Campus located in Chicago's "Gold Coast". Loyola is conducting campus master planning at its campuses, including its Health Sciences campus but has no current significant capital plans.

DEBT STRUCTURE

All of LUC's long-term debt is fixed rate. It has a $74 million commercial paper program, with payments of the maturing commercial paper supported by a LOC from PNC Bank, N.A. terminating in April 2019. There is a debt service coverage covenant of 1.2x in the agreement, with LUC reporting 2.25x for fiscal 2017. If there is a draw under the LOC, no repayment is required until one year following the draw, when LUC can choose to repay a draw in quarterly payments over a three-year period. The repayment schedule and over 800% monthly liquidity coverage provide good support of the university's demand debt.

DEBT-RELATED DERIVATIVES

None

PENSIONS AND OPEB

Loyola has a moderate expense burden and exposure to retiree benefits, with fiscal 2017 expenses about 5% of operating expenses. LUC froze its defined benefits plan, with a $34 million unfunded liability that is 63% funded for fiscal 2017. It contributed $22 million to its defined contribution plan in the year. LUC provides a defined benefit retiree healthcare plan with a $45 million liability for fiscal 2017. Effective July 1, 2004 LUC changed the plan to provide new retirees after 2006 an account-based retiree medical subsidy.

Governance and management: university leadership provides strong fiscal oversight

Loyola University of Chicago's platform of good management practices will lead to continued strong operations and good balance sheet reserves. Management and the board employ favorable practices for budgeting and financial oversight. The university budgets for fully funded depreciation and debt service, as well as for a surplus without gifts or the endowment draw. Effective fiscal 2018 the budget is on a rolling three year planning cycle. LUC was a national leader in generating profit and loss analyses for its individual schools and auxiliaries and for using faculty teaching productivity measures and responsibility center accounting.

The university installed its first lay president in 2016. Following her installation, the president appointed new people in leadership positions, most from within the university. The leadership team continues to implement the “Plan 2020” strategic plan, achieving notable success in fundraising and the launch of its Arrupe College.

LUC's Board of Trustees is comprised of 40 sitting members, each elected to three-year terms. Board membership includes regional and national business management, members of the Society of Jesus and a representative of Trinity Health System.

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