

ISSUER COMMENT

25 October 2019

 Rate this Research

RATING

Seniormost Rating ¹

Aa3 Stable

Contacts

Christopher Collins +1.212.553.7124
 AVP-Analyst
 christopher.collins2@moodys.com

Dennis M. Gephardt +1.212.553.7209
 VP-Sr Credit Officer
 dennis.gephardt@moodys.com

Patrick McCabe +1.212.553.4506
 Associate Lead Analyst
 patrick.mccabe@moodys.com

CLIENT SERVICES

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

University of North Carolina at Greensboro, NC

Annual comment on UNCG

Issuer Profile

[University of North Carolina at Greensboro](#) (Aa3 stable) is a moderately sized public university and member institution of the University of North Carolina System. Centrally located in the Piedmont Triad, UNCG serves as an important economic driver within the region and state. In fiscal 2018, UNCG generated operating revenue of \$425 million and enrolled 18,304 full-time equivalent (FTE) students as of fall 2018.

Credit Overview

University of North Carolina at Greensboro's credit strengths include its favorable student demand, excellent state financial support, manageable leverage, and well managed financial operations. Challenges include modest wealth and liquidity compared to Aa3-peers, a potential for moderating growth in student revenue given newly implemented state-imposed pricing limitations, and elevated exposure to post-retirement health care benefit (OPEB) obligations.

Exhibit 1

University of North Carolina at Greensboro, NC ²

	2014	2015	2016	2017	2018	Median: Aa3 rated public universities
Total FTE Enrollment	16,188	16,973	17,543	18,153	18,304	19,817
Operating Revenue (\$000)	351,712	358,910	378,569	393,337	424,955	645,215
Annual Change in Operating Revenue (%)	-2.7	2.0	5.5	3.9	8.0	2.1
Total Cash and Investments (\$000)	388,783	395,603	392,865	429,747	447,757	684,368
Total Debt (\$000)	326,208	317,403	310,370	329,798	322,940	354,637
Spendable Cash and Investments to Total Debt (x)	0.8	0.8	0.8	0.9	0.9	1.4
Spendable Cash and Investments to Operating Expenses (x)	0.8	0.8	0.8	0.8	0.8	0.7
Monthly Days Cash on Hand	116	124	125	123	111	154
Operating Cash Flow Margin (%)	9.6	14.8	16.6	13.3	14.2	10.3
Total Debt to Cash Flow (x)	9.6	6.0	5.0	6.3	5.3	5.1
Annual Debt Service Coverage (x)	2.4	2.9	3.2	2.1	2.5	2.7

Source: Moody's Investors Service

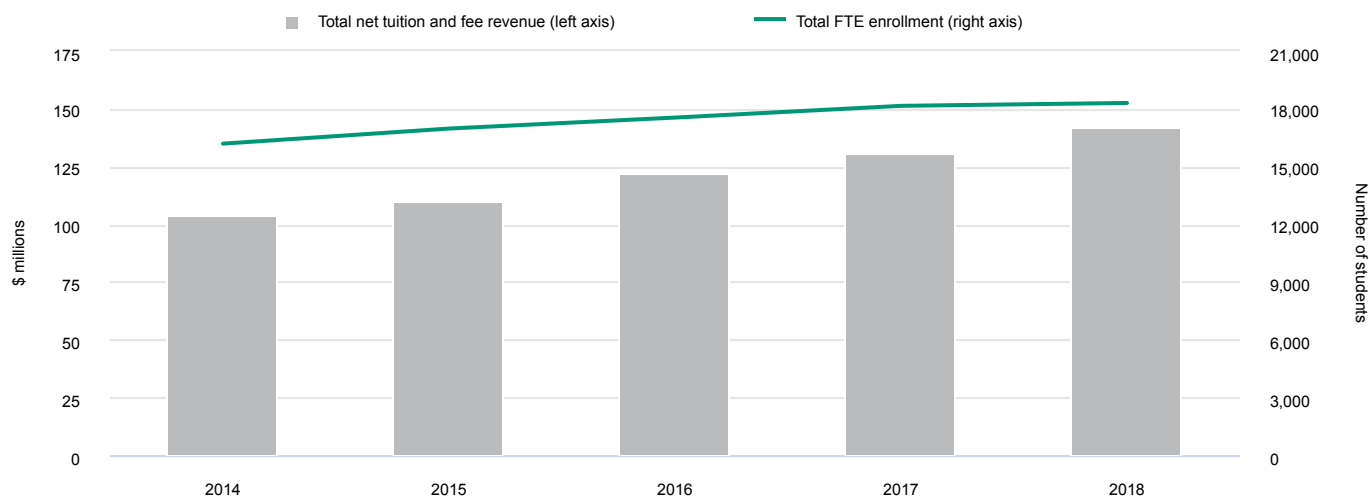
Market profile: UNCG will maintain favorable student demand given its highly regarded regional reputation and location in a state with generally good demographics. Its competitive pricing structure and effective enrollment management practices will support continued incremental enrollment growth. However, like other North Carolina public universities,

UNCG is subject to state-imposed pricing constraints, which will likely contribute to moderation of net tuition revenue growth. The university reports that its fall 2019 total enrollment was up slightly on an annual basis, even as its number of enrolled freshman students declined nearly 8% from fall 2018.

- » UNCG has an excellent strategic positioning, which reflects its close ties to the Aaa-rated state, and clearly articulated financial, enrollment, and capital objectives.
- » Its moderately sized operating revenue at \$425 million in fiscal 2018 has increased significantly by 21% since fiscal 2014, principally driven by a 33% increase in tuition and auxiliaries.
- » Enrollment has risen by 13% to 18,304 students in fall 2018 from 16,188 students in fall 2014, reflecting a successful execution of an enrollment management strategy.
- » With 44% in fall 2018 of accepted students enrolling, UNCG's yield reflects good student demand and its favorable regional reputation.

Exhibit 2

Strong student demand is reflected in favorable multi-year growth in enrollment and net student revenue



Source: Moody's Investors Service

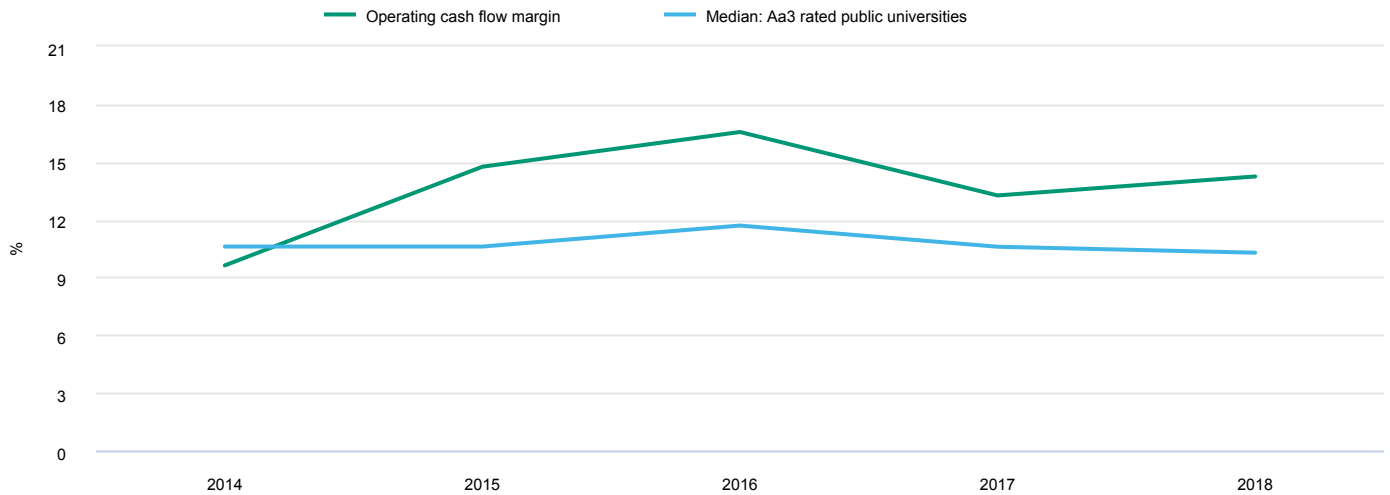
Operating performance: Through steady revenue growth and prudent financial management, UNCG will maintain its very good operating performance. Generation of excess cash flow at steady levels provides resources to support strategic investment, while concurrently bolstering balance sheet reserves. Aided by continued solid increases in net student revenue and state funding, the university will maintain healthy surpluses. Based on preliminary financials, its fiscal 2019 operating cash flow margin is expected to be comparable to the 14.2% margin in fiscal 2018.

- » The university's operating cash flow margin of 14.2% in fiscal 2018 illustrates strong financial management practices. It is slightly above the trailing five-year average margin of 13.3%.
- » Debt to cash flow of 5.3x in fiscal 2018 highlights its very good debt affordability and a strong ability to cover debt obligations from operations.
- » Good revenue diversity, including strong financial support from the Aaa-rated [State of North Carolina](#), is a credit strength. In fiscal 2018, net student revenue and state funding accounted for 45% and 40% of total operating revenue, respectively.

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

Exhibit 3

UNCG's operating performance is consistently favorable, reflecting prudent budget management



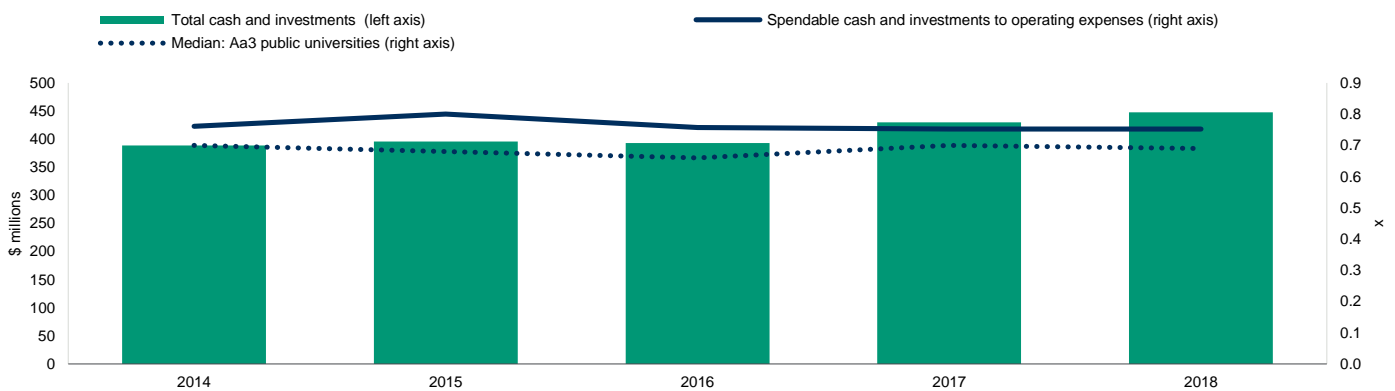
Source: Moody's Investors Service

Wealth and liquidity: Accumulation of financial reserves will keep pace with similarly rated peers, aided by healthy excess cash flow, prudent investment management, and increasing donor support. Similarly, the university's liquidity and operating reserve will continue to strengthen, further enhancing its financial flexibility. UNCG recorded a preliminary 5.1% pooled investment return in fiscal 2019.

- » Absolute wealth is modest compared to Aa3-peers, with total cash and investments of \$448 million in fiscal 2018. Favorably, growth has kept pace with peers, up 15% since fiscal 2014.
- » UNCG has a solid operating reserve, with spendable cash and investments to operating expenses of 0.8x in fiscal 2018, which is in-line with Aa3-peers.
- » Liquidity is sound, with \$114 million available in one month, covering 111 days of operating expenses. Exposure to potential liquidity risks are minimal given healthy operations and all fixed rate debt.
- » Philanthropic support, while modest overall, has edged up in recent years. Three year average gift revenue (fiscal 2016-2018) of \$16 million has grown from \$14 million average from fiscal 2012-2014.

Exhibit 4

Growth in wealth has kept pace with increases in operating expenses, maintaining a solid operating reserve



Source: Moody's Investors Service

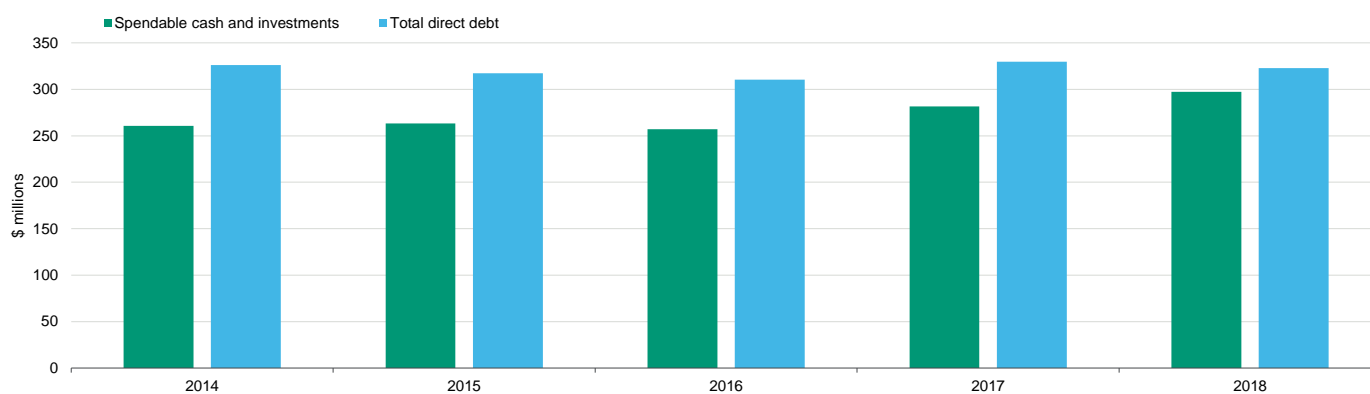
Leverage: Balance sheet leverage, as measured by spendable cash and investments to debt, will continue to incrementally improve. UNCG has no near-term debt plans and is amortizing existing debt at a relatively rapid pace. However, while exposure to pension

liabilities are modest given the relatively well-funded state administered defined benefit pension plan, the university has elevated exposure to post-retirement health benefits (OPEB). In fiscal 2018, its GASB-reported OPEB liability was over \$293 million.

- » Spendable cash and investments to total debt is good at 0.9x in fiscal 2018. It improved from 0.8x in fiscal 2014 because of somewhat improving reserves and regular debt pay down.
- » Investment in capital assets has been very high over the past five years, reflected by UNCG's average capital spending ratio of 2.7x depreciation during this period.
- » UNCG's age of plant of 11.2 years is well below the Aa3-rated public university median of 14.5 years, highlighting its commitment to keeping facilities attractive.
- » Total adjusted debt of \$505 million in fiscal 2018 is about 1.1x operating revenue, indicating manageable exposure to defined benefit pension obligations.

Exhibit 5

Balance sheet leverage has incrementally improved, as debt levels remained relatively level and wealth increased



Source: Moody's Investors Service

Sector Trends Public Universities ³

We have a negative outlook for the higher education sector through 2019. Maintaining the negative outlook is primarily due to expectations of continued low net tuition revenue growth, the main revenue stream for most colleges and universities. Despite improvement in other revenue streams, we expect credit conditions to remain challenged through 2019 and early 2020. Excluding healthcare operations, expected overall operating expense growth of around 4% will outpace projected revenue growth of 3.7% for the sector, leading to continued cost-containment efforts. Among the institutions we rate, private universities will fare better than public universities over the outlook period, with nearly 60% projected to achieve revenue growth of 3% or greater. The 3% is our proxy for higher education inflation. We expect less than half of public universities to generate revenue growth that high, constrained by affordability concerns and state government influence on pricessetting. Universities with academic medical centers will have both higher aggregate revenue and expense growth than those without. This reflects the continued expansion of healthcare enterprises through both organic growth as well as mergers and acquisitions. Roughly 15% of our rated universities have patient care revenue, which accounts for almost 25% of aggregate sector revenue.

Endnotes

- ¹ The rating referenced in this report is the college's or university's seniormost public rating.
- ² Definitions of the metrics in the Key Indicators table are available in the appendices of our most recently published Higher Education medians reports, [public university](#) and [private university](#). The appendices also provide additional metrics broken out by sector and rating category. We use data from a variety of sources to calculate the medians, some of which have differing reporting schedules. Median data for prior years published in this report may not match last year's publication because of data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals. Median data represents the most recent published median data, which in some cases could be from the prior fiscal year.
- ³ Many public university pension liabilities are associated with participation in the statewide multiple-employer cost-sharing plans.

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1191267

CLIENT SERVICES

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