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ISSUER COMMENT
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RATING

Seniormost Rating [1]

Aa3	Stable

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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.

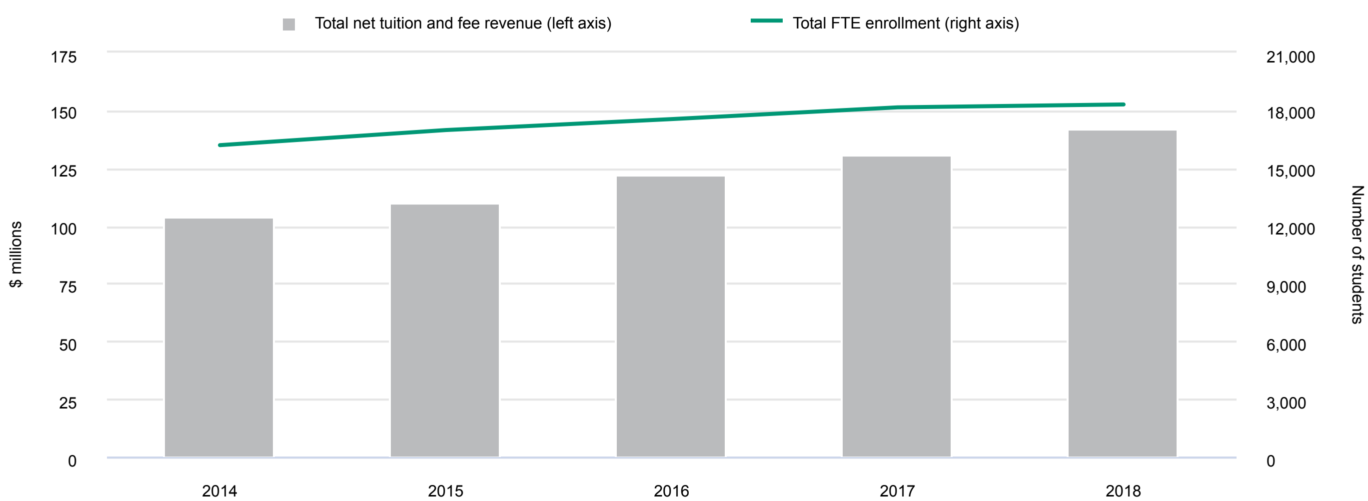
» UNCG has an excellent strategic positioning, which reflects its close ties to the Aaa-rated state, and clearly articulated financial, enrollment, and capital objectives.

» 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

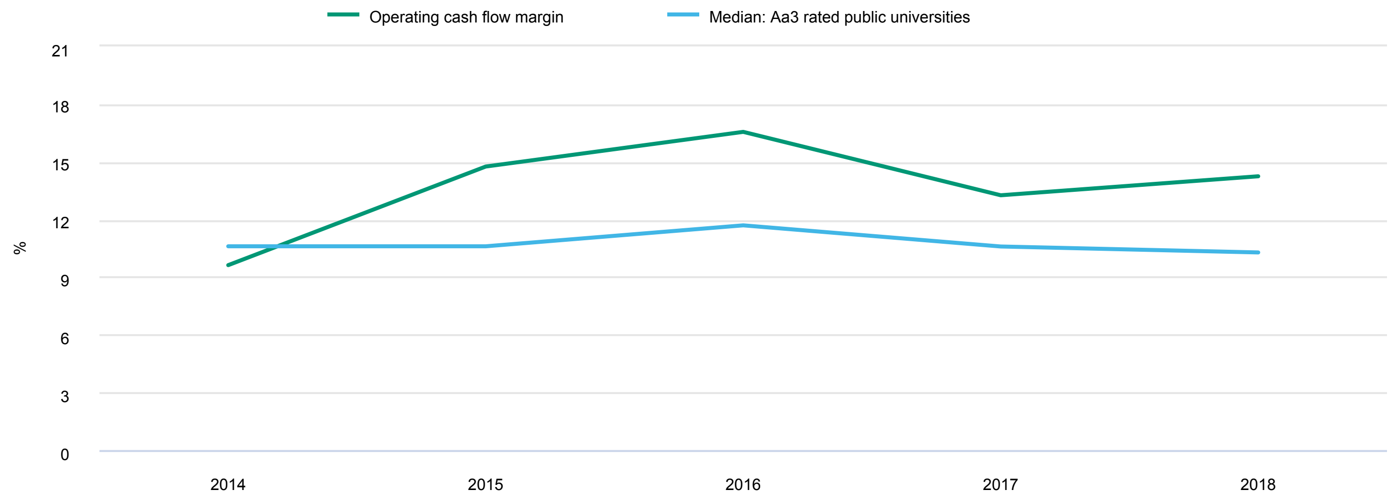
Operating performance: Through steady revenue growth and prudent financial management, UNCG will maintain its very good operating performance. Generation of excess cash flow at steady levels provides resources to support strategic investment, while concurrently bolstering balance sheet reserves. Aided 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.

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.

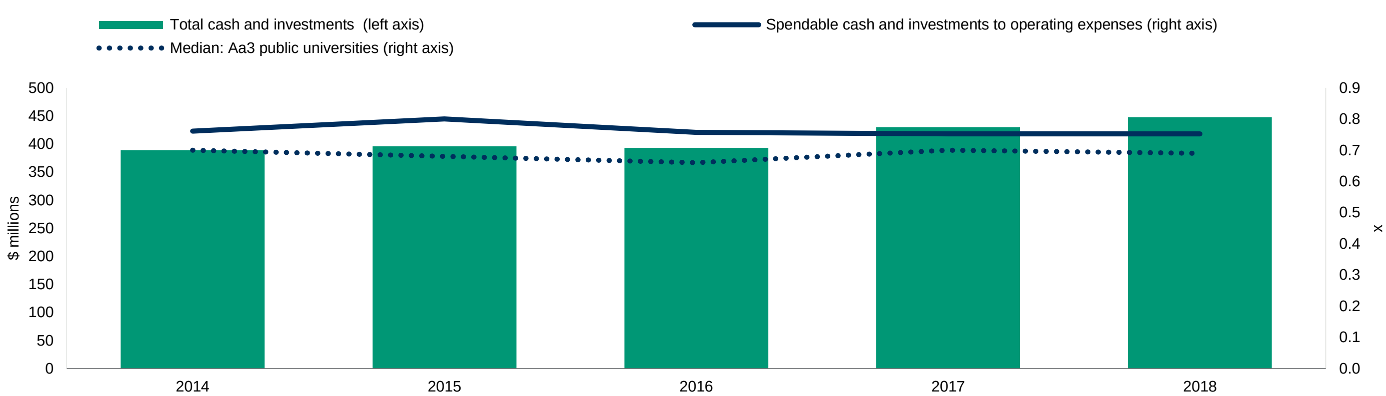
» Absolute wealth is modest compared to Aa3-peers, with total cash and investments of $448 million in fiscal 2018. Favorably, growth has kept pace with peers, up 15% since fiscal 2014.

» 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.

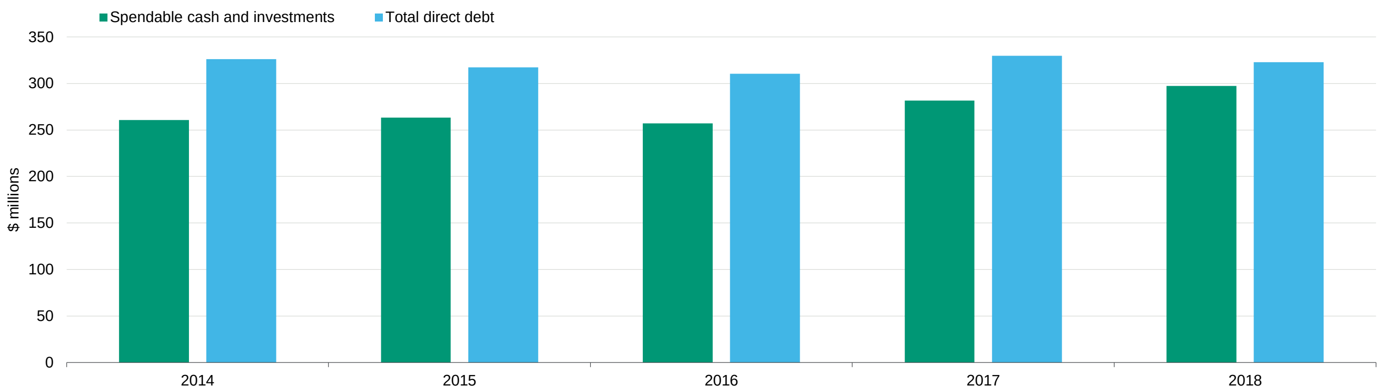
» Investment in capital assets has been very high over the past five years, reflected by UNCG's average capital spending ratio of 2.7x depreciation during this period.

» 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 pricesetting. 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.

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