MOODY'S
INVESTORS SERVICE

CREDIT OPINION
19 October 2022

Update

Send Your Feedback

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.

Contacts

Adam Hardi, CFA +1.416.214.3636
Vice President-Senior Analyst
adam.hardi@moodys.com

Jonathan Holmes +1 647.417.6302
Associate Analyst
jonathan.holmes@moodys.com

Michael Yake +1.416.214.3865
Associate Managing Director
michael.yake@moodys.com

Alejandro Olivo +1.212.553.3837
MD-Sovereign/Sub Sovereign
alejandro.olivo@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 Toronto (Canada)

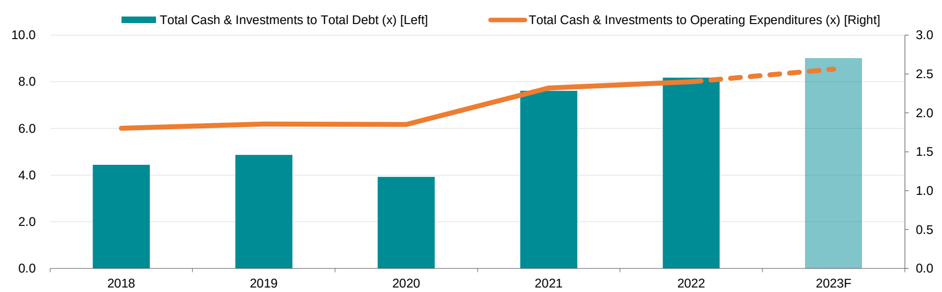
Update to credit analysis

Summary

The credit profile of the University of Toronto (Aa1 stable) (U of T) reflects its flagship status as Canada's largest and top-ranked post-secondary institution, and global brand recognition of its academic and research quality. The university's balance sheet's strength from sizeable cash and investments, including endowment funds valued at CAD3.2 billion at April 30, 2022, provides significant coverage of debt and expenses. The credit profile also reflects diversified revenue sources and a lower reliance on provincial funding than most Canadian peers. These strengths provide a buffer against the adverse fiscal impacts of the coronavirus pandemic including on ancillary revenues, inflationary pressures, and provincial restrictions on tuition fees.

Exhibit 1

High liquidity and low debt provide significant fiscal strength
(fiscal years ending April 30)



Sources: University of Toronto and Moody's Investors Service

Credit strengths

» Exceptional wealth and liquidity and low leverage

» Very strong governance and management underpin reputation

» Global brand recognition and research strength supports consistent enrolment growth, but high share of international students creates revenue concentration

Credit challenges

» Budget pressures from the coronavirus pandemic, inflation, and provincial tuition caps

» Sizeable pension expenses and pension liabilities

Rating outlook

The stable outlook reflects our view that the university will maintain exceptional levels of wealth and liquidity, manageable debt levels, and continued strong fundraising capacity, which provide a significant buffer against potential enrolment and funding pressures. The stable outlook further reflects our expectation that the university will continue to navigate the pandemic environment with minimal enduring impacts on its credit profile.

Factors that could lead to an upgrade

The rating could be upgraded following a sustained period of strong positive operating performance and increasing enrolment numbers, in conjunction with a material increase in endowment and liquidity levels in line with Aaa-rated global peers.

Factors that could lead to a downgrade

A sustained decline in enrolment demand, including from international students, leading to weaker financial performance and operating deficits, would lead to downward rating pressure. A material decline in liquidity and investment returns, or a material deterioration of the funded status of its pension plan, would also contribute to downward rating pressure.

Key indicators

Exhibit 2

University of Toronto
(fiscal year ending April 30)

Key Indicators	2018	2019	2020	2021	2022	2023F
Operating revenue (CAD millions)[1]	3,068.8	3,184.7	3,300.7	3,412.4	3,450.9	3,532.8
EBIDA margin (%)	19.9	18.2	18.6	19.4	17.2	16.6
Total cash and investments (CAD millions)	4,821.0	5,259.0	5,418.0	6,949.0	7,456.0	8,201.6
Total Cash & Investments to Total Adjusted Debt (x)	4.44	4.87	3.93	7.61	8.18	9.01
Total Cash & Investments to Operating Expenses (x)	1.80	1.86	1.85	2.32	2.40	2.56
Annual debt service coverage (x)	15.2	14.5	15.3	17.5	15.7	15.4

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

Detailed credit considerations

Baseline credit assessment

The credit profile of U of T, as expressed by its Aa1 stable rating, reflects a BCA for the university of aa1. The rating also incorporates a moderate likelihood of extraordinary support coming from the Province of Ontario (Aa3 stable) 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 CAD7.5 billion at April 30, 2022, providing 8.2x coverage of total adjusted debt and 2.4x coverage of operating expenses, ratios which compare favourably to global peers. Despite our expectation of continued modest pressure on liquidity to address coronavirus-related fiscal pressures, we expect that the university will be able to replenish its cash and investment levels from strong operating results and solid investment returns as evidenced by strong results during the pandemic.

The university's endowment portfolio is the largest among Canadian universities, totaling CAD3.17 billion at April 30, 2022 despite limited year-over-year growth (2021: CAD3.15 billion). Endowment growth was supported in 2021-22 by new donations and investment gains as investment returns rebounded. The Long-Term Capital Appreciation Pool, which had a fair value of CAD3.9 billion at April 30, 2022 and includes all assets of the endowment fund, has seen significant growth in recent years in large part due to the growth in endowment balances. Nevertheless, the pool's investment returns continue to exhibit annual volatility which adds some uncertainty to investment performance.

U of T has also been highly effective in its fundraising activities. Following its successful Boundless fundraising campaign that ended in 2018, the university launched a new campaign ('Defy Gravity') with a financial goal to generate CAD4 billion in donations over 10 years. In both 2021 and 2022, the university exceeded CAD400 million in annual fundraising amounts, and we expect that it will be able to maintain a competitive advantage in attracting donations relative to peers. The university receives significant donations and gifts for research and capital projects, including a recent CAD25 million gift for its Scarborough Academy of Medicine and Integrated Health. These gifts evidence the university's 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.

U of T's credit profile also benefits from low levels of leverage. The university issued its latest debenture in 2011 and we do not anticipate new debt issues over the next 2-3 years. U of T's practice in recent years has been to finance capital projects from non-debt sources, including funding its capital plan from a combination of departments' operating reserves, provincial and federal funding, and donations. We expect that the university could issue a modest amount of new debt related to its capital infrastructure and energy retrofit programs. Debt affordability, as measured by annual debt service coverage, stood at 15.7x at April 30, 2022, a level that exceeds the peer median.

Very strong governance and management underpin reputation

The success of U of T in maintaining a strong balance sheet and balancing its core operational financial results while meeting academic goals, is underpinned by very strong governance and management through the development and execution of multi-year frameworks for academic and financial planning. The board and senior leadership continue to ensure and monitor that sound policies and practices are in place.

U of T's strong governance is evident in its planning and response to the coronavirus pandemic. This included a swift and successful conversion of in-person classes early on during the pandemic to online courses, and scenario analysis of potential operating outcomes. The university also puts strong 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, the university itself still maintains control over collective bargaining, 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.

Global brand recognition and research strength supports consistent enrolment growth, but high share of international students creates revenue concentration

U of T is Canada's largest post-secondary institution located in the Province of Ontario across three campuses in downtown Toronto, Mississauga and Scarborough. U of T is Canada's preeminent research university and consistently places as the top ranked Canadian school and one of the top 20-25 global schools in international rankings, underpinning its international brand.

Along with its affiliations, including several hospitals, the university also continues to be the leader among 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 the university's ability to attract consistently high global demand and increase enrolment and revenue numbers 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 85,747 in 2021-22, up more than 8% over the last five years. The rise in enrolment and contribution to revenue growth has been supported by a faster growth in international students than domestic students, and international students now represent around a 28% total FTE students.

The reliance on international students continues to expose U of T to manageable pressures from the adverse impact of the coronavirus pandemic on international enrolment given continued, although easing, global travel restrictions, and to global trade and political tensions. Much of the historical international growth has come from Asia, and in particular from China. The number of Chinese students more than doubled over the last 5 years and now constitute around 60% of international students. The significant dependence on international tuition revenue exposes it to revenue concentration from a single region or country and to political risk from potential diplomatic tensions, as evidenced by recent tensions between Canada and China and previous tensions between Canada and Saudi Arabia.

Budget pressures from the coronavirus pandemic, inflation, and provincial tuition caps

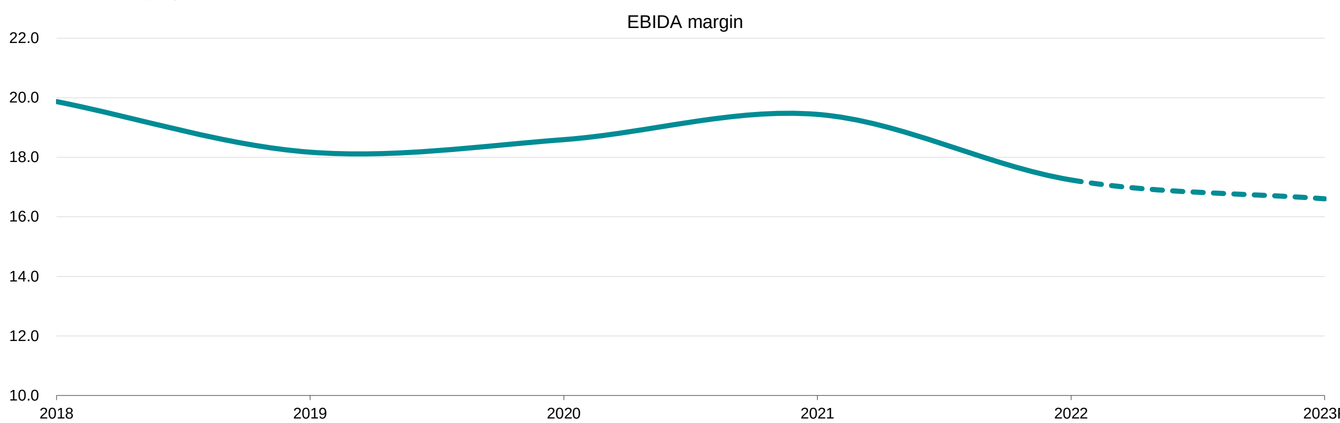
The coronavirus pandemic – which continues to have impact on U of T's 2022-23 budget – has created near-term revenue strains for the university. Although enrolment levels have proved resilient to pandemic pressures, service-based operations like ancillary services (student housing / residence, parking, food and transportation) have been negatively impacted. Ancillary operations are especially sensitive to in-person attendance on campus and have not yet recovered to pre-pandemic levels. Starting 2021-22, the university has budgeted for up to a CAD50 million deficit in ancillaries that it expects to cover over five years.

The university also faces cost escalation pressures from rising salaries and benefits which currently make up approximately 60% of total expenses, and therefore represent one of the key drivers of expense increases. In the current high inflationary environment, U of T could see pressure as expiring collective agreements are renewed.

Operating results have also been challenged by provincially mandated freezes in domestic tuition rates over the last three years following a mandated 10% reduction in 2019-20. The mandated restrictions weaken U of T's ability to generate revenue from tuition or to offset any international revenue pressure from domestic fees. Additionally, although currently deferred due to the pandemic to 2024-25, the province expects to transition its operating grants to reflect a greater emphasis on performance metrics, which could create volatility in government grants in the future. These combined pressures have resulted in weaker growth in operating revenues than in previous years, although the university has maintained strong EBIDA margins of 17.2% in 2021-22 and our estimate of 16.6% in 2022-23 (Exhibit 3), indicating prudent expense controls by management reflected in cost containment measures and general conservatism including related to travel.

Exhibit 3

Despite revenue pressures from the pandemic, inflation and provincial tuition fee restrictions, U of T maintains strong EBIDA margins (Fiscal year ending April 30)



Sources: University of Toronto and Moody's Investors Service

Despite the weakened level of operating funding, U of T has a lower reliance on ongoing provincial funding than most of its rated domestic peers (around 20-25% of operating revenues). This lower reliance provides U of T with greater autonomy and flexibility in managing its finances and academic programs from own-source revenues, cushioning some of the impact of the challenges in funding environment relative to peers. U of T can rely on additional mitigants to offset fiscal and enrolment pressures. Mitigants include increasing international student fees, which are not subject to provincial controls, as well as reducing administrative costs. These mitigants, along with strong summer and fall enrolments, additional pandemic-related government funding and strong investment returns, contributed to a consolidated surplus of CAD416 million in 2021-22.

Sizeable pension expenses and contingencies

U of T's financial profile remains pressured by sizeable annual pension expenses representing around 4-5% of total expenses. For 2021-22, pension expense totaled CAD129 million (4.2% of expenses).

U of T has historically recorded large pension deficits given significant unfunded pension liabilities. As of July 1, 2021 the university transitioned to a jointly sponsored defined benefit pension plan, the University Pension Plan Ontario (UPP), with two other universities. As at the July 1, 2021 transition date, the pension plan was in a surplus of CAD792.5 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.

We expect that rising interest rates in response to high inflation could pressure the funded status of the pension plan. U of T estimates that each 0.25% change in the discount rate creates a CAD250 million change in pension obligations. To mitigate against potential future declines in the funded status, U of T maintains a pension risk contingency which stood at CAD127 million in 2021-22 and which will gradually decline to CAD50 million by 2026-27.

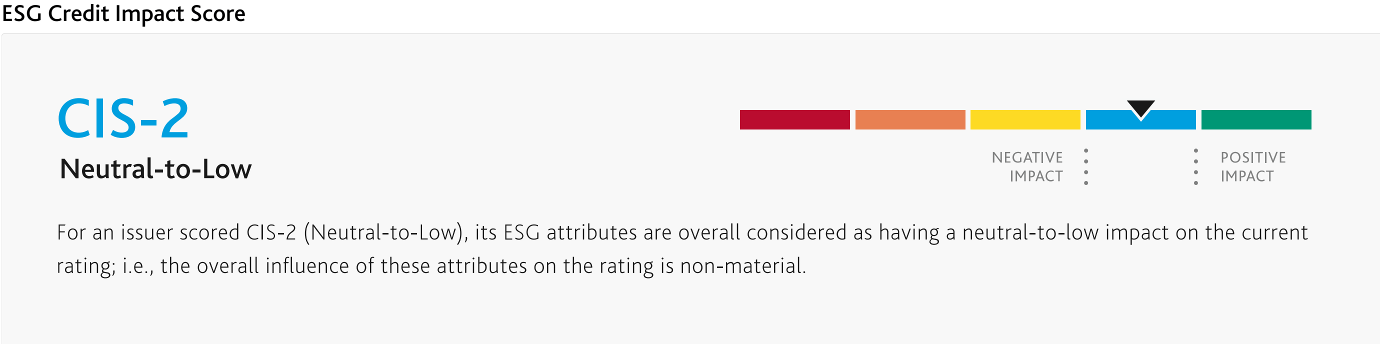
Extraordinary support considerations

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 Neutral-to-Low CIS-2

Exhibit 4
ESG Credit Impact Score



Source: Moody's Investors Service

U of T's neutral-to-low (**CIS-2**) ESG Credit Impact Score reflects its neutral-to-low exposure to environmental risks, moderately negative exposure to social risks, and a neutral-to-low governance risks.

Exhibit 5
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

U of T's E issuer profile score is neutral-to-low (**E-2**). The university is not subject to material 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

U of T's S issuer profile score is moderately negative (**S-3**). The university's strong reputation has allowed it to withstand pressures from a decline in the university entrance-age population in Ontario. Provincial funding policies designed to address affordability, both on tuition setting and support to students, also present moderate risks. U of T has a higher share of international students than most rated universities, which helps offset pressures from domestic tuition fees but exposes the university to political and economic risk including immigration trends and changes in policies on immigration eligibility. These pressures are partly mitigated by strong selectivity ratios and solid enrolment demand and a favourable central government immigration policy.

Governance

U of T's G issuer profile score is neutral-to-low (**G-2**) and 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 assigned baseline credit assessment (BCA) of aa1 is in line with the scorecard indicated outcome of aa1. For details of our rating approach, please refer to the Higher Education (August 2021) and Government-Related Issuers (February 2020) methodologies.

Exhibit 6

University of Toronto
(fiscal year ending April 30, 2022)

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	2,740	Aaa
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	Aaa	Aaa
	Operating Environment	Aa	Aa
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	17%	A
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	5,828	Aaa
	Total Cash and Investments to Operating Expenses	2.4	A
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	8.2	Aaa
	Annual Debt Service Coverage	15.7	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 Investors Service

Ratings

Exhibit 7

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

Source: Moody's Investors Service

REPORT NUMBER 1337293

CLIENT SERVICES

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