

## ISSUER COMMENT

12 April 2019

 Rate this Research

### RATING

#### Seniormost Rating <sup>1</sup>

Aaa	Stable
-----	--------

### Contacts

Jared Brewster +1.212.553.4453  
 AVP-Analyst  
 jared.brewster@moodys.com

Susan E Shaffer +1.212.553.4132  
 VP-Sr Credit Officer  
 susan.shaffer@moodys.com

### CLIENT SERVICES

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

## Grinnell College, IA

### Annual comment on Grinnell

#### Issuer profile

Grinnell College is a small private, not-for-profit college located in Grinnell, IA. In fiscal 2018, Grinnell generated operating revenue of \$152 million and enrolled 1,681 full-time equivalent (FTE) students as of fall 2018. The college is highly selective while committed to financial access, being both need-blind and meeting 100% of an accepted student's demonstrated need.

#### Credit overview

[Grinnell College's](#) (Aaa stable) exceptional credit quality is anchored by its robust financial reserves, which are largely unrestricted, consistently strong operating performance, and continued solid student demand. Available financial reserves provide strong coverage of outstanding debt and operating expenses. Liquid resources are immense and provide an extraordinary 2,622 days of monthly cash on hand. Operating cash flow margins are routinely above 20%, providing debt service coverage well above 3.0x. Revenue is somewhat concentrated, with investment income representing nearly 60% of the college's revenue base. Favorably, despite operating in a very competitive landscape amongst nationally renowned liberal arts colleges and having a need-blind mission, net tuition continues climbing, evidencing continued solid demand. Other credit factors considered include a modest scope of operations, an elevated age of plant, and modest, albeit improving, philanthropy.

Exhibit 1

#### Grinnell College, IA <sup>2</sup>

	2014	2015	2016	2017	2018	Median: Aaa rated private college
Total FTE Enrollment	1,693	1,678	1,671	1,678	1,681	9,724
Operating Revenue (\$000)	125,169	132,173	142,905	147,204	152,267	1,603,682
Annual Change in Operating Revenue (%)	7.4	5.6	8.1	3.0	3.4	3.7
Total Cash and Investments (\$000)	1,872,011	1,831,256	1,694,221	1,938,888	2,061,141	10,890,517
Total Debt (\$000)	101,205	91,720	85,820	184,375	178,475	1,492,932
Spendable Cash and Investments to Total Debt (x)	17	19	18	9.9	11	6.4
Spendable Cash and Investments to Operating Expenses (x)	16	15	13	14	15	7.7
Monthly Days Cash on Hand	3,635	3,033	2,541	2,802	2,622	828
Operating Cash Flow Margin (%)	22.1	21.8	26.7	25.1	29.5	20.5
Total Debt to Cash Flow (x)	3.7	3.2	2.2	5.0	4.0	4.9
Annual Debt Service Coverage (x)	3.5	3.2	3.9	3.3	3.1	3.7

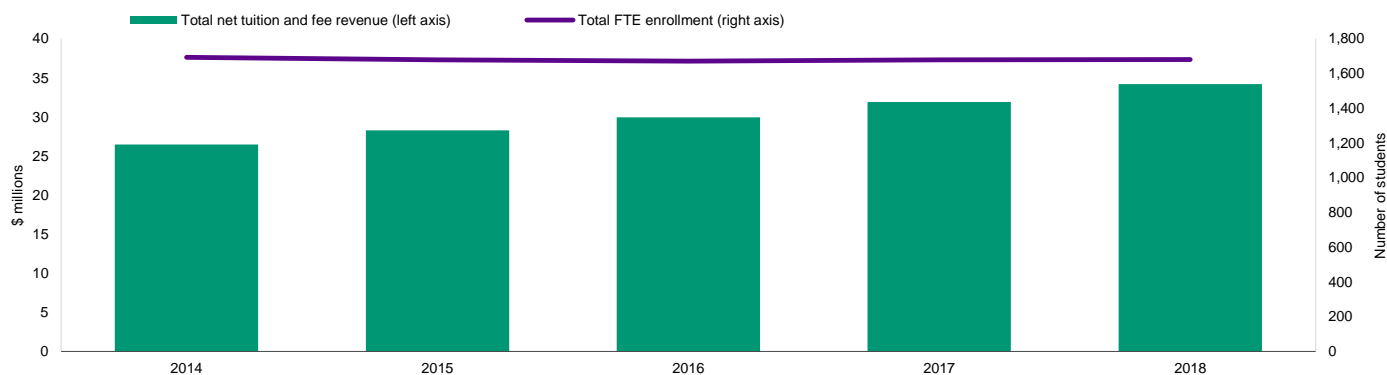
Source: Moody's Investors Service

**Market profile:** Grinnell's excellent strategic positioning will continue, supported by its solid national demand and growing philanthropy. Despite growing competition for high caliber students, Grinnell has consistent acceptances and yield rates, albeit weaker compared to peers of similar credit quality. Additionally, despite meeting demonstrated financial need for all accepted students, net tuition revenue per student continues climbing, up 6.7% in fiscal 2018 and up 29% since fiscal 2014, supporting overall revenue growth during the period. Philanthropy has traditionally been modest compared to peers of similar credit quality, but recent efforts have grown three-year average gifts by approximately 65% since fiscal 2014.

- » The college is highly selective with a fall 2018 acceptance rate of 24%, consistent with prior years. It does, however, lag similarly rated peers, which had a much lower acceptance rate in fall 2018.
- » Operating revenue continues to grow, albeit at a more modest rate, with a 3.4% increase in fiscal 2018. Over the past five years, revenue has grown by an average of 5.5% annually.
- » Net tuition revenue has climbed markedly over the past five years, up by 29% to \$34 million in fiscal 2018 compared with \$26 million in fiscal 2014. This increase has supported continued overall revenue growth during that period.
- » A need-blind admissions policy elevates tuition discounting compared to peers of similar credit quality. The fiscal 2018 tuition discount was 58%, down moderately from 63% in fiscal 2014.
- » Three-year average gift revenue has grown materially by 65% to \$17 million in fiscal 2018 compared with \$10 million in fiscal 2014 as a result of strong improvements in fundraising.

Exhibit 2

### Enrollment is stable and net tuition revenue continues growing



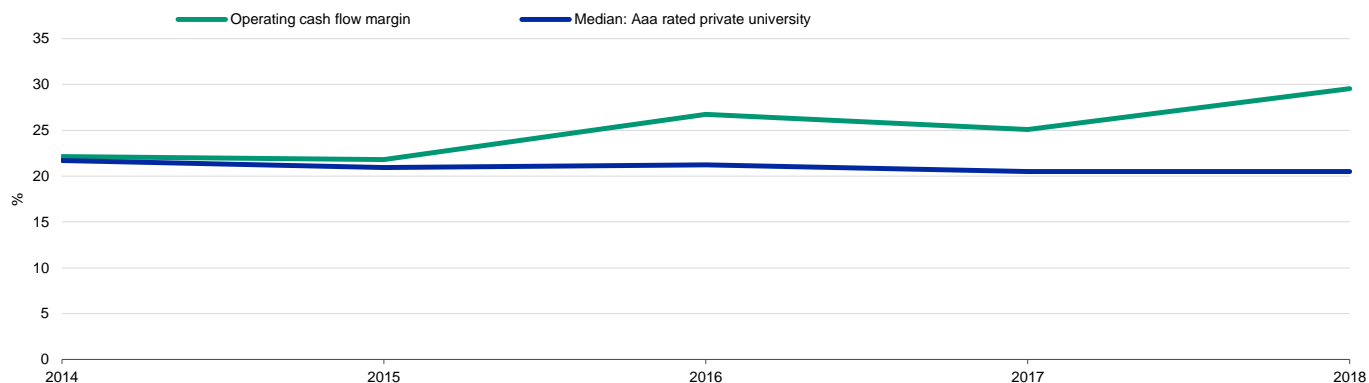
Source: Moody's Investors Service

**Operating performance:** Operating performance will remain strong through continued growth in net tuition revenue and growing income from investments. Despite solid revenue growth over the past five years, operating expenses have remained fairly modest, demonstrating management's commitment to conservative budgeting practices and producing operating surpluses.

- » Operating performance is excellent, with a reported operating cash flow margin of 29.5% in fiscal 2018. Over the past five years, operating cash flow margins have averaged a robust 25.1%, stronger than peers of similar credit quality.
- » Operating expenses were relatively flat in fiscal 2018. Overall, operating expenses over the past five years have increased by just over 3% annually.
- » Grinnell's sources of revenue are moderately concentrated with 60% derived from investment income.

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](http://www.moody's.com) for the most updated credit rating action information and rating history.

Exhibit 3

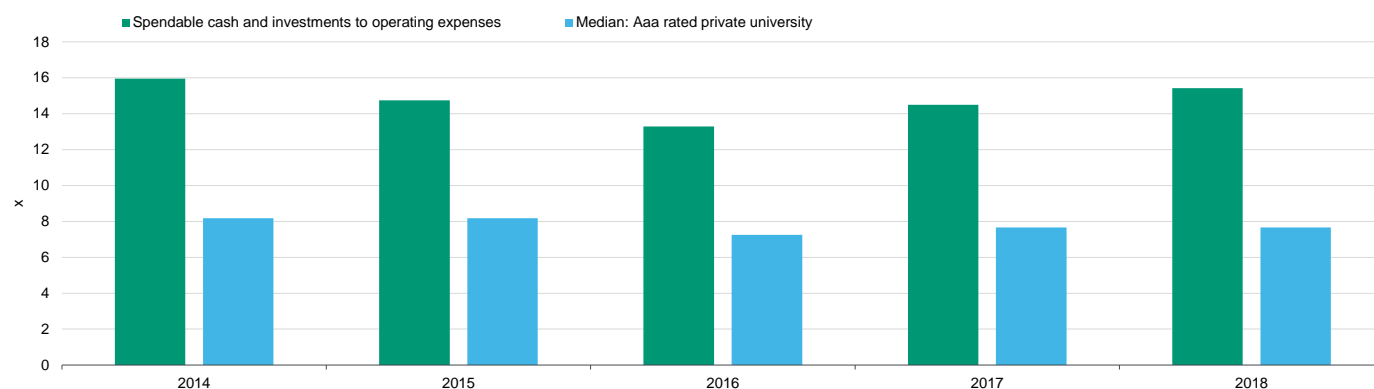
**Operating cash flow margins are consistently higher than peers of similar credit quality**

Source: Moody's Investors Service

**Wealth and liquidity:** Strong overall relative wealth and extraordinary liquidity will remain key credit strengths. A substantial portion of wealth is unrestricted, providing ample coverage of expenses as well as excellent liquidity. Investments are diverse and returns solid, at 10.1% in fiscal 2018 and 18.8% in fiscal 2017.

- » Total cash and investments are ample and growing, with \$2.1 billion in fiscal 2018, up 10% since fiscal 2014. Total cash and investments per student is very strong at \$1.2 million in fiscal 2018.
- » Spendable cash and investments are substantial and provide strong coverage of operating expenses at 15.4x in fiscal 2018, far exceeding peers of similar credit quality.
- » Available monthly liquidity is ample at over \$831 million and provides 2,622 days of monthly cash on hand, well above similarly rated peers. Available monthly liquidity has declined in recent years, primarily due to changes in investment allocation.

Exhibit 4

**Spendable cash and investments provide ample coverage of operating expenses**

Source: Moody's Investors Service

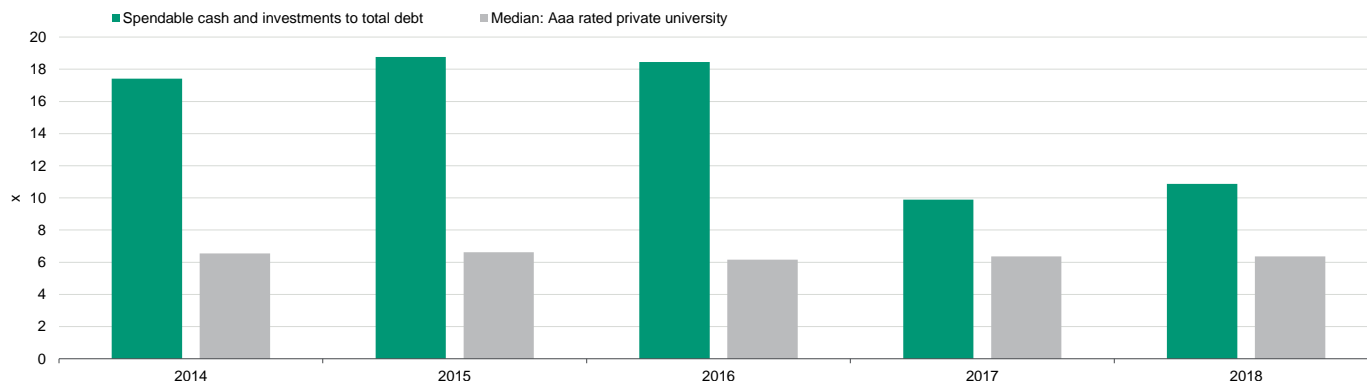
**Leverage:** Significant financial resources and strong operating performance underpins Grinnell's very low leverage. Capital spending has increased markedly in recent years after years of spending below depreciation. Age of plant remains elevated compared to peers, but should fall as the college continues investing in capital.

- » Spendable cash and investments covered debt an ample 10.9x in fiscal 2018, strong relative to peers of similar credit quality.
- » Debt to cash flow has remained relatively flat over the past five years. Fiscal 2018 debt to cash flow was 4.0x, slightly better than peers of similar credit quality.

- » Capital spending in fiscal 2018 was a robust 5.8x depreciation and a solid 1.7x in fiscal 2017. Prior to fiscal 2017, capital spending had been below depreciation since fiscal 2011.
- » Age of plant of 21 years in fiscal 2018 is very high relative to peers of similar credit quality. Recently issued debt and elevated capital expenditures should bring down the college's age of plant over the coming years.

Exhibit 5

### Spendable cash and investments coverage of debt is higher than peers



Source: Moody's Investors Service

### Sector trends <sup>3</sup>

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. 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

- <sup>1</sup> The rating referenced in this report is the college's or university's seniormost public rating.
- <sup>2</sup> 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.
- <sup>3</sup> 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](http://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.

## CLIENT SERVICES

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