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ISSUER COMMENT
12 April 2019

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RATING

Seniormost Rating [1]

Aaa	Stable

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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 [2]

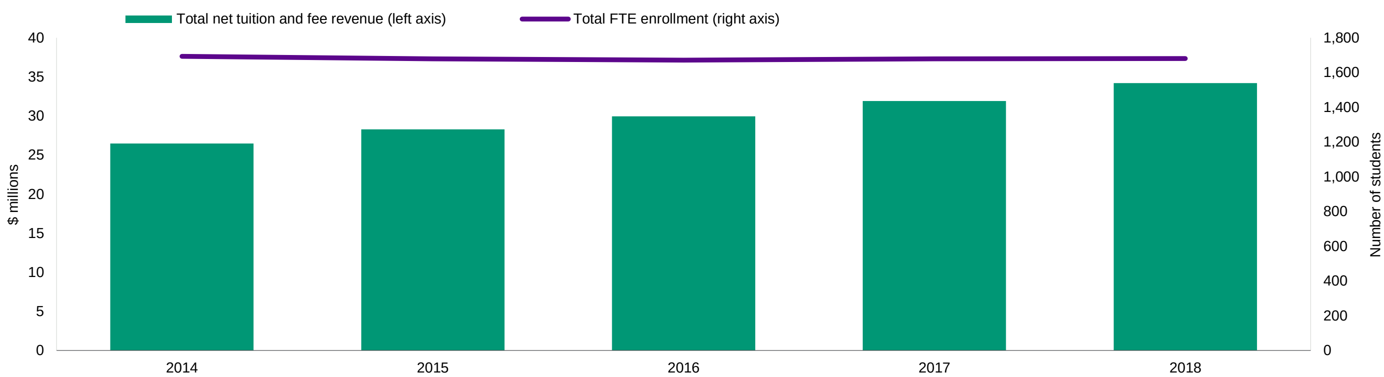
	2014	2015	2016	2017	2018	Median: Aaa rated private college
Total FTE Enrollment	1,693	1,678	1,671	1,678	1,681	9,724
Operating Revenue ($000)	125,169	132,173	142,905	147,204	152,267	1,603,682
Annual Change in Operating Revenue (%)	7.4	5.6	8.1	3.0	3.4	3.7
Total Cash and Investments ($000)	1,872,011	1,831,256	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

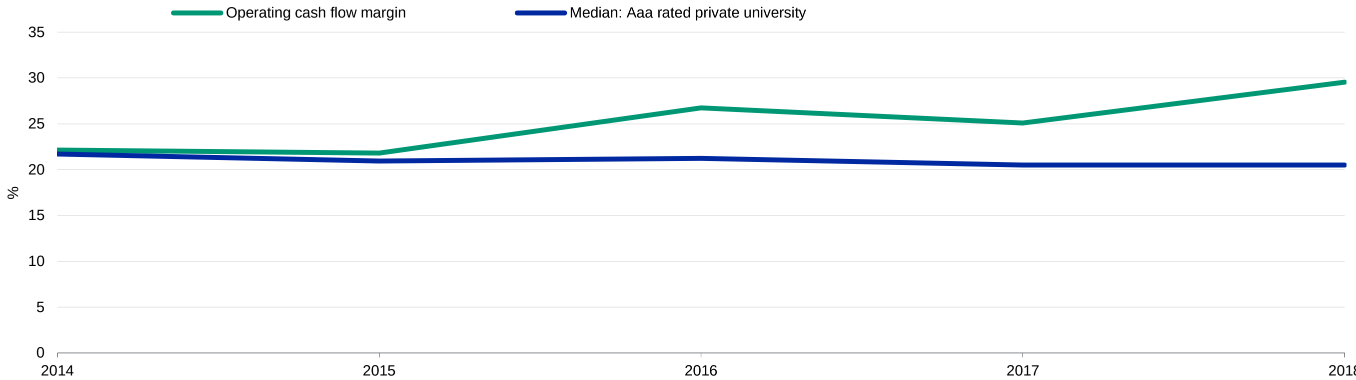


Source: Moody's Investors Service

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.

Exhibit 3
Operating cash flow margins are consistently higher than peers of similar credit quality



Source: Moody's Investors Service

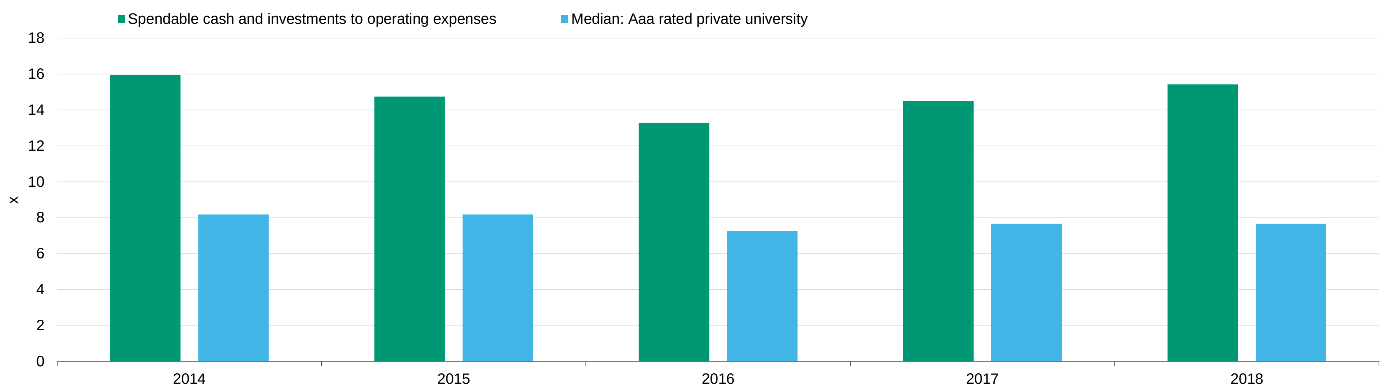
Wealth and liquidity: Strong overall relative wealth and extraordinary liquidity will remain key credit strengths. A substantial portion of wealth is unrestricted, providing ample coverage of expenses as well as excellent liquidity. Investments are diverse and returns solid, at 10.1% in fiscal 2018 and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

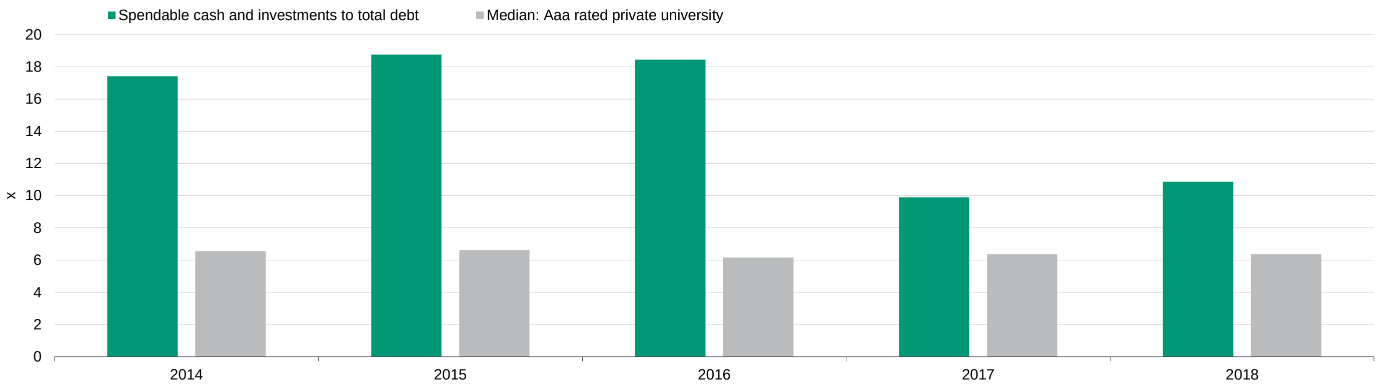
» Debt to cash flow has remained relatively flat over the past five years. Fiscal 2018 debt to cash flow was 4.0x, slightly better than peers of similar credit quality.

» 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 [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. 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.

REPORT NUMBER 1170406

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