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CREDIT OPINION
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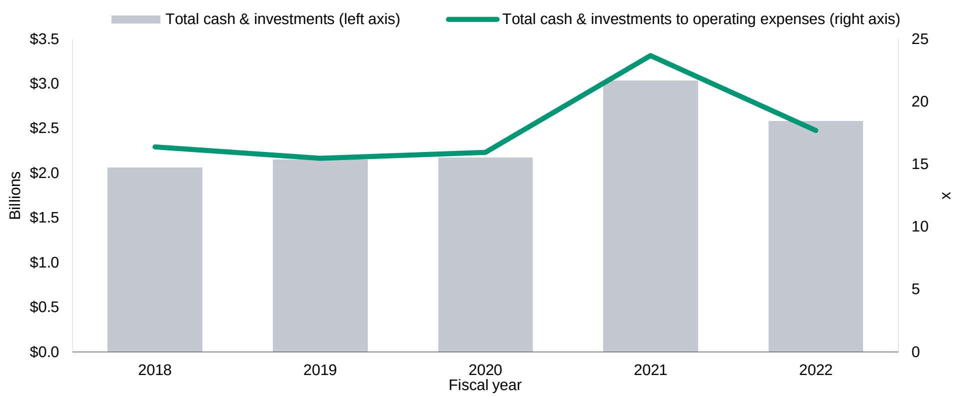
Grinnell College, IA

Update to credit analysis

Summary

Grinnell College, IA's (Aaa stable) credit quality is the result of its exceptional wealth levels, prudent fiscal management and robust student demand, all of which support its excellent brand and strategic positioning. The college's financial resources continue to provide exceptional coverage of operations and debt. Available monthly liquidity remains substantial despite market volatility and an investment approach that includes a sizable amount of illiquid assets. Grinnell consistently produces double-digit operating and EBIDA margins, which provide for solid coverage of debt service obligations and strategic investments. The college's recently enacted no-loan policy is strengthening already strong student demand, with enrollment having rebounded strongly and set to stabilize after a pandemic-induced decline. Offsetting credit considerations for the college include a small operating base, a heavy reliance on investment income, weaker philanthropy relative to peers, and potential erosion of net tuition revenue due to the shift to a loan-free model. The college also has concentration risk in its investment portfolio with about a fifth of investments under one private capital management group.

Exhibit 1
Substantial reserves provide excellent coverage of operations and support Grinnell's credit quality



Source: Moody's Investors Service

Credit strengths

» Strong balance sheet, with $2.6 billion of total cash and investments in fiscal 2022 and over $1.8 billion that is unrestricted, supporting mission and strategic initiatives

» Robust monthly liquidity with 1,391 monthly days cash on hand; more than twice that amount of coverage with annual liquidity

» Exceptional financial policy and strategy, with prudent expense management and EBIDA margins consistently close to 30%

» Strong student demand stemming from Grinnell's national academic reputation with a competitive need-blind admissions policy and no student loan initiative

Credit challenges

» Heavy reliance on investment income, at 65% of total operating revenue for fiscal 2022, requiring careful endowment management and long term planning due to challenging investment market and macroeconomic conditions

» Investment concentration risk with one private capital management group overseeing about a fifth of the college's investments

» Weaker philanthropic support compared to Aaa-rated peers

» Highly competitive market for students with other very selective private liberal arts colleges

Rating outlook

The stable outlook reflects Moody's expectations that Grinnell will maintain steady and strong operating performance with healthy student demand and measured growth in fundraising. It additionally assumes no material increase in debt.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» Notable balance sheet weakening including a material decline in liquidity

» Sustained thinning of operating performance and weakened debt service coverage

» Substantial increase in debt with outsized financial leverage relative to peers

Key indicators

Exhibit 2
GRINNELL COLLEGE, IA

	2018	2019	2020	2021	2022	Median: Aaa Rated Private Universities
Total FTE Enrollment	1,681	1,701	1,470	1,730	1,732	8,424
Operating Revenue ($Million)	152.3	155.0	161.3	150.2	188.8	1523.2
Annual Change in Operating Revenue (%)	3.4	1.8	4.0	-6.8	25.7	0.9
Total Cash & Investments ($Billion)	2.1	2.1	2.2	3.0	2.6	16.5
Total Debt ($Million)	178.5	172.6	166.7	221.5	218.0	1307.6
Spendable Cash & Investments to Total Debt (x)	10.9	11.7	12.2	13.1	11.2	8.8
Spendable Cash & Investments to Operating Expenses (x)	15.4	14.5	14.9	22.6	16.7	10.5
Monthly Days Cash on Hand (x)	2,622	2,256	1,521	2,032	1,392	1,190
EBIDA Margin (%)	24.7	20.7	26.6	27.8	33.6	18.5
Total Debt to EBIDA (x)	4.7	5.4	3.9	5.3	3.4	5.3
Annual Debt Service Coverage (x)	5.4	3.1	4.2	3.6	6.6	3.8

Source: Moody's Investors Service

Profile

Grinnell College is a small private, not-for-profit college located in Grinnell, IA. In fiscal 2022, Grinnell generated operating revenue of $189 million and enrolled 1,732 full-time equivalent (FTE) students as of fall 2022. The college is highly selective while committed to financial access, being both need-blind and meeting 100% of an accepted student's demonstrated need.

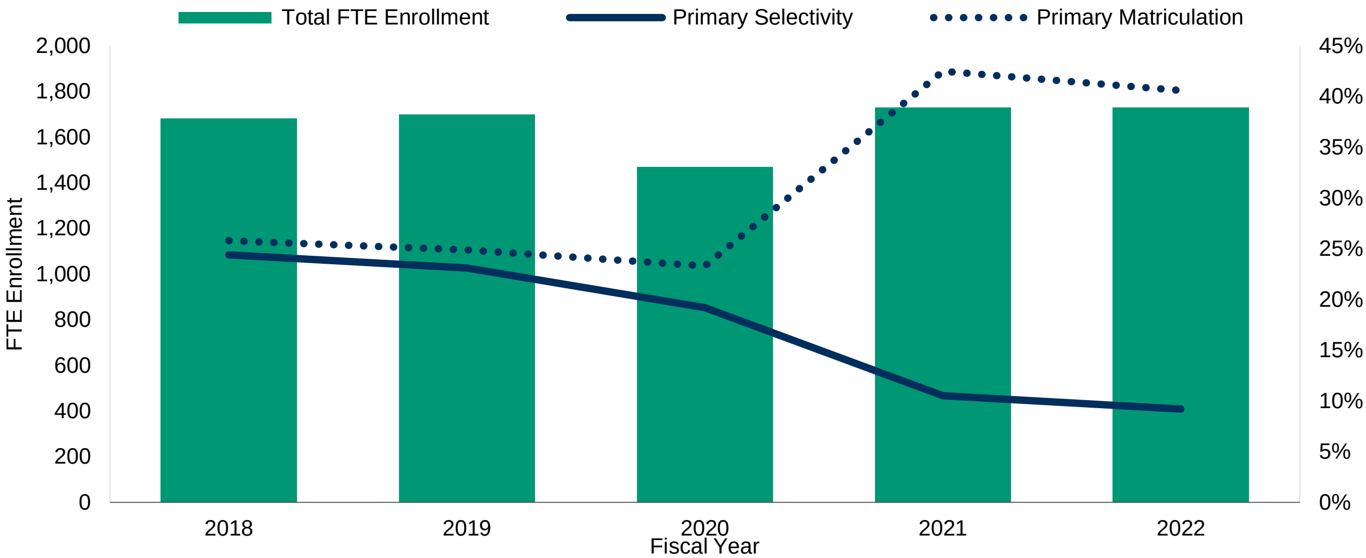
Detailed credit considerations

Market position: premier academic reputation driving strong student demand; no loan policy attracting broader applicant pool

Grinnell's strategic positioning will remain exceptional, driven by its national reputation as a provider of high quality liberal arts education and commitment to meeting demonstrated financial need for enrolled students. A newly initiated no-loan policy has attracted additional demand with admissions yields continuing to strengthen. According to Grinnell, they are one of just seven institutions in the United States meeting full need and offering need-blind, no-loan, and test optional policies. From 2019 to 2022, Grinnell's number of applications rose from 8,000 to 11,600; selectivity improved from 23% to 9%; and matriculation grew from 25% to 41%. This substantial improvement in selectivity and yield has brought Grinnell in line with many of its peers of similar credit quality.

Improving philanthropy is a key strategic priority for Grinnell, as the college historically trails peers in annual giving. Three-year average gift revenue was $11.9 million in fiscal 2022, well below many institutions of similar size and credit quality. Favorably, fiscal 2022 was a record year for total new gifts and commitments for the college, and leadership expects further support, particularly to support the no-loan initiative and other strategic plans.

Exhibit 3
No-loan initiative contributing to higher matriculation yield as the college becomes even more selective



Source: Moody's Investors Service

Operating performance: consistently strong margins provide excellent coverage of debt and sufficient financial flexibility; high reliance on investment income

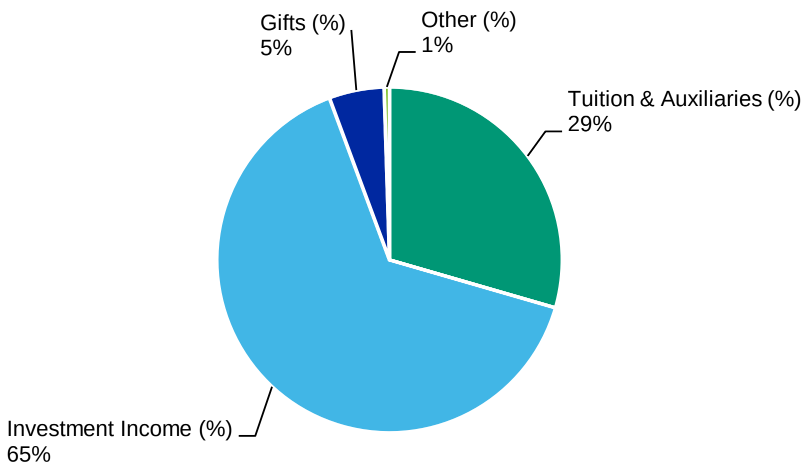
Grinnell's exceptional financial policy and strategy, including conservative budget management and multi-year planning will continue to produce strong operating results. The college maintained its commitment to generating historically strong operating and EBIDA margins even during challenging fiscal conditions brought on by the pandemic, and has improved operating performance further even with campus life closer to normalcy. Grinnell generated an EBIDA margin of 33.6% in fiscal 2022 which led to annual debt service coverage of 6.6x. Management expects similarly favorable results for fiscal year 2023, even after expense increases for salaries and programmatic upgrades.

The college remains highly reliant on investment income to fund operations, comprising 65% of total revenue in fiscal 2022. Investment income comprised more of the college's revenue in fiscal 2021 due to lower net tuition and auxiliary income, which increased in fiscal 2022. The continuance of the loan policy may lead to softening of net tuition revenue, exposing the college even further to investment markets. Recent market volatility presents some risk, but the college has a demonstrated track record of preserving its endowment with ample operating reserves and liquidity to weather unexpected revenue interruptions.

Exhibit 4

Continued reliance on investment income

Fiscal 2022 sources of revenue



Source: Moody's Investors Service

Wealth and liquidity: extraordinarily strong balance sheet underpins credit quality

Substantial wealth and balance sheet strength continue to be the cornerstone of Grinnell's exceptional credit quality. In fiscal 2022, total cash and investments totaled $2.6 billion with over $1.8 billion in unrestricted net assets. Unfavorable financial conditions in fiscal 2022 led to a decrease in endowment value, but total cash and investments have grown by over $500 million across the past five fiscal years. Total cash and investments cover operating expenses an excellent 17.7x, well above peer institutions.

As the college continues to navigate less favorable market conditions, we expect its experienced and sizable investment team will provide responsible stewardship over its assets and wealth. Grinnell invests a large portion, about 56%, of its endowment in illiquid and structured investments. The college does, however, maintain sizable liquid reserves which help offset its exposure to long-term nonmarketable investments. Further, the college has some concentration risk in its portfolio, with one private capital management group currently holding about 20% of its endowment investments.

Liquidity

Grinnell's liquidity remains robust with total available monthly liquidity of $502 million in fiscal 2022, resulting in 1,392 monthly days cash on hand. Annual liquidity amplifies the college's financial flexibility even further. Liquid reserves have declined in recent years because of changes to the college's investment allocation and working capital policies, but will remain exceptional given the college's smaller scale and still sizable liquid and unrestricted reserves. The college does have continued exposure to unfunded commitments, totaling $298 million in fiscal 2022.

Leverage: financial reserves and operating performance provide strong coverage of debt

The college's exceptionally strong balance sheet and operating performance provide for a very manageable debt burden. Spendable cash and investments covered total debt over 11x and debt to EBIDA was a solid 3.4x in fiscal 2022, stronger than most peers of similar credit quality. The college does not anticipate the need for additional borrowing in the near-term.

The college is investing more in capital after halting some projects during the pandemic and continues to maintain a manageable amount of deferred maintenance. Age of plant is somewhat elevated at 17.5 years, but should decrease as ongoing major capital projects are completed in the next few years. A sizable capital reserve gives management the flexibility to plan and fund new facility and technology infrastructure improvements over the near-term without increasing debt.

Legal security
All of the college's debt are unsecured general obligations of the college and are on parity.

Debt structure
Grinnell's debt is all long-term fixed rate. The college's Series 2021 bonds are interest only until a scheduled bullet payment in fiscal 2052.

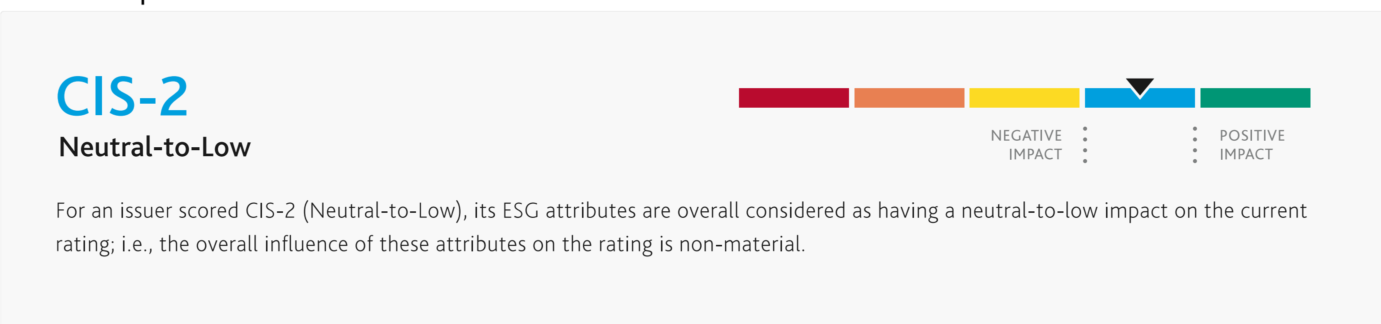
Debt-related derivatives
None

Pensions and OPEB
Grinnell's retirement benefit costs are manageable, representing about 4% of fiscal 2022 operating expenses. The college offers a defined contribution plan through TIAA and contributed $6 million in fiscal 2022. Grinnell does offer retiree healthcare benefits where participants contribut and the college provides retirees with a lump sum payment. In fiscal 2022 the college received net periodic benefit income of $1.2 million and the associated liability was $14.2 million.

ESG considerations

Grinnell College, IA's ESG Credit Impact Score is Neutral-to-Low CIS-2

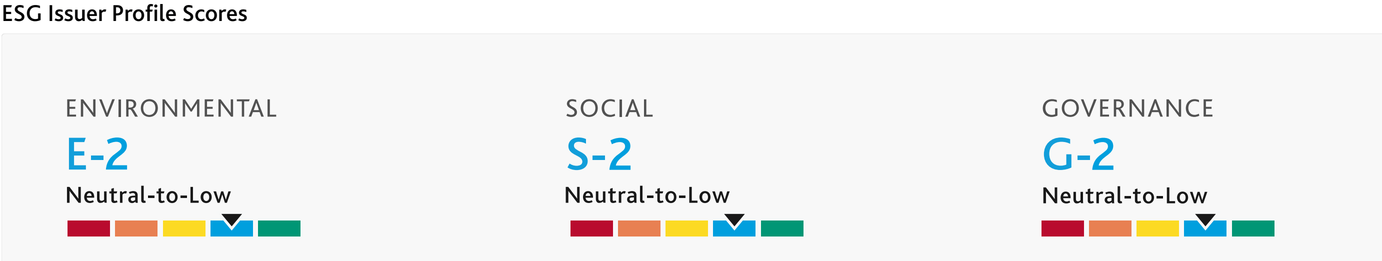
Exhibit 5
ESG Credit Impact Score



Source: Moody's Investors Service

Grinnell College's ESG credit impact score is neutral-to-low (**CIS-2**). A solid national brand, vast wealth, and excellent financial management and strategy partially mitigate the college's ESG risk exposures.

Exhibit 6
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental
Grinnell College's exposure to environmental credit risks is neutral-to-low across all categories (**E-2**). The college's location in Grinnell, Iowa exposes it to extreme storm and rising temperature risks, but other physical climate risks are low. Grinnell has an extensive emergency notification network on campus to warn its community of weather events ahead of time. The college has a sustainability

plan to expand its renewable energy usage, improve building energy efficiency standards and water management systems, and develop better sustainability course offerings for its students.

Social

Grinnell College's exposure to social credit risks is neutral-to-low across most categories (**S-2**). Despite operating in the demographically challenged Midwest and competing against other elite liberal arts colleges, Grinnell's substantial wealth and policy of meeting full demonstrated needs largely mitigates its exposure to social risks. Positive customer relations are supported by its generous financial aid policy, as well as excellent outcomes for its students. Unlike a majority of the sector that faces headwinds from human capital risks, Grinnell's exposure is neutral-to-low given its robust resources, as well as its stature as an employer of choice in rural Iowa.

Governance

Grinnell's exposure to governance credit risks is neutral to low across most categories (**G-2**). The college has a history of exceptional operating performance because of its conservative endowment spend policy and expense containment effort, supporting strong management credibility and financial management. Adding additional support to positive financial management is a history of strong balance sheet management with a relatively low debt burden and very high liquidity. As with a majority of the sector, Grinnell's large board introduces board structure risk. Favorably, the board's diversity and composition of alumni, donors, and civic leaders provide strong oversight of the college.

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 principal methodology used in this rating was Higher Education Methodology published in August 2021. The Higher Education Methodology includes a scorecard that summarizes the factors that are generally most important to higher education credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not match an assigned rating. We assess brand and strategic positioning, financial policy and strategy, and operating environment on a qualitative basis.

The two notch distinction between the scorecard indicated outcome and the assigned rating reflects Grinnell's substantial unrestricted endowment and reserves that provide extraordinary coverage of debt and operations. It also reflects the college's track record of producing excellent operating and cash flow margins and effective management of its endowment.

Exhibit 7

Grinnell College

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	189	A
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	Aa	Aa
	Operating Environment	A	A
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	34%	Aaa
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	2,580	Aa
	Total Cash and Investments to Operating Expenses	17.7	Aaa
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	11.8	Aaa
	Annual Debt Service Coverage	6.6	Aaa
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	Aaa	Aaa
	Scorecard-Indicated Outcome		Aa2
	Assigned Rating		Aaa

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

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