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CREDIT OPINION
9 November 2016

New Issue

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A.T. Still University of Health Sciences, MO

New Issue - Moody's Assigns A3 to AT Still University of Health Sciences' (MO) Revenue Bonds; Outlook Stable

Summary Rating Rationale

Moody's Investors Service has assigned an A3 rating to A.T. Still University of Health Sciences, MO's (ATSU) $22 million Educational Facilities Revenue Bonds, Series 2016A (tax-exempt) and $8 million Series 2016B (taxable), with final maturities in 2047. The bonds will be issued through the Health & Educational Facilities Authority of the State of Missouri. Moody's has also affirmed the A3 rating on the outstanding $25 million Revenue Bonds. The outlook is stable.

The A3 rating reflects the university's strong niche market with health sciences, dental and osteopathic programs at its Arizona and Missouri campuses. The university continues to exhibit very healthy growth of net tuition revenue, contributing to good growth of unrestricted reserves. Additionally, the university benefits from a flexible expense structure with the ability to quickly adjust program offerings. The rating also incorporates the university's high reliance on student charges and the competitive student market at a time when many other institutions are expanding their health services offerings.

Credit Strengths

- Market niche as a healthcare focused university with campuses in Missouri and Arizona; 26% FTE enrollment growth over last five years
- Strong net tuition revenue growth averaging 6% annually between FY 2012-16
- Positive operations generate solid debt service coverage; estimated FY 2016 cash flow covered debt service over 3.3 times
- Strengthening financial flexibility; spendable cash and investment grew 29% between FY 2012-16

Credit Challenges

- Highly reliant on student charges; approximately 80% of total operating revenue in FY 2016
- Comparatively weak fundraising with three-year average gifts per student of $1,226, very low for A-rated private universities
- Multiple locations, clinics and programs require careful management and oversight

Rating Outlook

The stable outlook is based on our expectations of continued healthy operating margins and a steady build-up up of unrestricted reserves.

Factors that Could Lead to an Upgrade

» Significant rise in overall wealth and unrestricted liquidity

Factors that Could Lead to a Downgrade

» Loss of market share and/or inability to grow net tuition revenue

» Material rise in financial leverage

Key Indicators

A.T. STILL UNIVERSITY OF HEALTH SCIENCES, MO

	2012	2013	2014	2015	2016	2016 Pro Forma
Total FTE Enrollment	2,390	2,611	2,759	2,830	3,019	3,019
Operating Revenue ($000)	113,181	120,137	125,978	133,406	141,538	141,538
Annual Change in Operating Revenue (%)	2.8	6.1	4.9	5.9	6.1	6.1
Total Cash & Investments ($000)	123,733	135,037	146,780	156,017	156,710	156,710
Total Debt ($000)	39,134	38,250	62,735	62,058	60,330	90,330
Spendable Cash & Investments to Total Debt (x)	2.4	2.7	1.8	1.9	2.0	1.3
Spendable Cash & Investments to Operating Expenses (x)	0.9	0.9	0.9	1.0	0.9	0.9
Monthly Days Cash on Hand (x)	270	254	294	296	278	278
Operating Cash Flow Margin (%)	12.0	12.6	10.8	13.4	10.9	10.9
Total Debt to Cash Flow (x)	2.9	2.5	4.6	3.5	3.9	5.9
Annual Debt Service Coverage (x)	6.2	5.5	4.4	4.4	3.3	3.3

Recent Developments

ATSU's planned use of the Series 2016 bond proceeds to acquire currently leased space in Mesa (AZ) will save on annual lease expenses and add approximately 14,000 square feet of additional space that could be used for growth opportunities. ATSU's current lease expense is approximately $3 million a year through FY 2018, when it lowers to nearly $2 million through 2028. Projected maximum annual debt service on the Series 2016 bonds will be $2.1 million (FY 2037). In addition to long term savings through ownership of the buildings, third-party tenants currently generate $300,000 per year in rents, providing additional savings to the university.

Detailed Rating Considerations

Market Profile: Significant Demand for the University's Programs Across Multiple Locations

Strong demand for ATSU's health sciences programs in both its Missouri and Arizona campuses will continue to drive enrollment and net tuition revenue growth. FTE enrollment of 3,019 in fall 2016 represents a nearly 7% increase over fall 2015 and a 26% increase from five years ago. A new dentistry program in Kirksville (MO), which has its first full cohort in fall 2016, has been a key driver of growth over the past three years. Accreditation requirements around research and staffing will temper growth, but strong demand remains for the university's programs. In fall 2016 the admitted student yield remained high at 52% and net tuition per student grew a solid 3.8% in FY 2016. With such strong demand for ATSU's programs, combined with little to no discounting, net tuition revenue is likely to continue growing, which is significant due to the university's reliance on this key revenue source.

Net tuition revenue remains the university's most critical revenue source, and is likely to continue rising as health professions remain in high demand. Net tuition revenue grew 6.4% in FY 2016 and has averaged 6% annual growth over the last five years. The growth is nearly triple the median of 2.3% for A rated private universities. Favorable demographics in Arizona, where approximately one-half of the university resides, fuels demand for health professionals. However, as demand for health professionals continues to rise across the country, many universities are investing in or expanding health sciences programs, creating a more competitive environment. With such high exposure to health sciences, in order to retain its very good strategic positioning ATSU must continue to invest in technology and programs to remain relevant and competitive.

Operating Performance: Strong Demand & Flexible Operations Fuel Ongoing Surpluses

The university's consistently positive operations and strong cash flows, combined with year-over-year revenue growth are likely to continue. The university had a three-year average operating margin of 5% in fiscal years 2014-2016. Furthermore, an estimated FY 2016 cash flow margin of 11% covered debt service 3.3 times. The elimination of operating leases related to its Mesa, Arizona campus will likely lead to even greater cash flow in the near-term. The marginal debt service of $2.1 million on the Series 2016 bonds is lower than the lease expense and easily absorbed into the university's capital structure. Positive margins and overall revenue growth are primarily driven by healthy increases in net tuition revenue, as well as sound financial and budget management practices. Maintaining a healthy cash flow will be important as the university seeks to build unrestricted reserves and continue investing in its programs.

Management of several clinics in Arizona and other clinic affiliations exposes the university to greater health care risk, and the potential for the university to need to step in should the operations of the clinics fail. We expect these risks to remain manageable given the minority share of revenues that patient care represents (6% in FY 2016) and the carefully delineated roles between ATSU and its affiliates.

Wealth and Liquidity: Steady Growth of Reserves from Ongoing Surpluses

While ATSU's overall wealth levels are low for the A rating category, we expect the university's balance sheet cushion to improve over the near term with expectations for continued surpluses and absence of planned use of reserves. Spendable cash and investments, up nearly 30% since FY 2012, covered FY 2016 expenses 0.9 times, in line with the median for A3-rated private universities. ATSU's $157 million of total cash and investments (as of FYE 2016) are conservatively managed, mostly in equities (42%), fixed income (31%) and cash (19%).

Improvement in fundraising would be a credit positive for the university. As with many stand-alone graduate schools, the university has historically weak philanthropic support, with average gift revenue of $3.7 million in FY 2016, compared to the median of $17.4 million for A-rated peers.

LIQUIDITY

ATSU's monthly liquidity provides good operational support with 278 monthly days cash as of FYE 2015, in line the median for A3 rated private universities. The university has relatively limited calls on liquidity since all of its debt is fixed rate and amortizing, the endowment has no exposure to unfunded capital commitments, and operating performance is positive.

Leverage: Manageable Leverage Supported by Stable Cash Flow

Leverage remains manageable and the new borrowing will provide greater long-term budget predictability. The new borrowing eliminates ATSU's capital leases, which consume approximately $3 million in lease expense, and replaces it with debt service of approximately $2.1 million. Pro forma debt to operating revenues is a moderate 0.6 times and pro forma debt to cash flow of approximately 5.9 times is in line with the median for A3 rated private universities. Operating performance should remain stable, ultimately leading to steady growth of reserves. Estimated FY 2016 spendable cash and investments of $119 million covers pro forma debt a comfortable 1.3 times.

The university does not have any additional borrowing plans in the near term, and capital plans are manageable at this time.

DEBT STRUCTURE

All parity bonds are fixed rate with relatively level debt service and final maturity in 2047. For all outstanding bonds, including the Series 2016 bonds, a debt service coverage of 1.1 times must be maintained. Debt service coverage of 4.2 times was reported in FY 2016, well in excess of the covenant.

DEBT-RELATED DERIVATIVES

The university has no debt related derivatives.

PENSIONS AND OPEB

ATSU's operating flexibility is further enhanced by having no exposure to pension or post-employment health benefits. Rather, the university offers a defined contribution plan to its employees, consuming just 2.8% of expenses in FY 2016.

Governance and Management: Careful Management and Oversight of Multiple Campuses, Programs and Relationships

Thorough analysis, coordination and planning continues to drive ATSU's approach to programmatic and location expansion. The university has taken a thoroughly reviewed approach to new projects and programs with multiple studies completed and reviewed by cross-university and board subcommittees around each new project. Short and long-term plans include contingencies and modeling for each of the university's programs. In addition to being effective, the university's thorough risk management approach is essential to an operation with multiple campuses and critical agreements with over a dozen clinics across the country.

Legal Security

The Series 2016 bonds are general obligations of the university, secured by a pledge of unrestricted revenues. The bonds are on parity with the Series 2014, 2011 and 2000 bonds. However, while the Series 2014, 2011 bonds have debt service reserve funds and a mortgage pledge (Series 2000 bonds included in mortgage pledge) on various university properties, the Series 2016 bonds will not a debt service reserve fund. The Series 2016 bonds will have the benefit of the prior mortgage pledge until the those related bonds are redeemed. Given the fundamental credit quality of the university, we do not believe a rating distinction is warranted at this time.

Use of Proceeds

Proceeds from the Series 2016 bonds will be used to purchase three buildings that are currently occupied by the university through a lease agreement. The building is a part of its Arizona campus. The proceeds will also be used to pay for the costs of issuance.

Obligor Profile

ATSU operates osteopathic, health science and oral health programs at its Mesa (AZ) and Kirksville (MO) campuses. In fall 2016, the university enrolled over 3,500 students, an all-time high. Roughly half of total enrollment is represented at both campuses. In FY 2016, ATSU generated $142 million in total operating revenue and held approximately $157 million in total cash and investments.

Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

A.T. Still University of Health Sciences, MO

Issue	Rating
Educational Facilities Revenue Bonds (A.T. Still University of Health Sciences) Series 2016A (Tax Exempt)	A3
Rating Type	Underlying LT
Sale Amount	$22,000,000
Expected Sale Date	11/22/2016
Rating Description	Revenue: 501c3 Unsecured General Obligation

Taxable Educational Facilities Revenue Bonds (A.T. Still University of Health Sciences) Series 2016B	A3
Rating Type	Underlying LT
Sale Amount	$8,000,000
Expected Sale Date	11/22/2016
Rating Description	Revenue: 501c3 Unsecured General Obligation

Source: Moody's Investors Service

REPORT NUMBER 1046812

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