

CREDIT OPINION

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University of Virginia

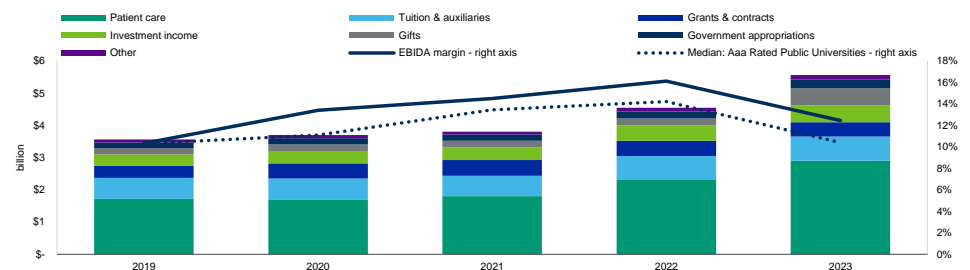
Update to credit analysis

Summary

The [University of Virginia's](#) exceptional credit quality (Aaa stable) reflects its superior student market position, \$14.9 billion of total wealth, strong operating performance, and continued generous donor support. Prudent financial and strategic planning supports the university's exceptional strategic positioning. The rating also incorporates operating and capital support from the [Commonwealth of Virginia](#) (Aaa stable). Credit quality is tempered by the expanding patient care enterprise that comprised 55% of operating revenue in fiscal 2023 with continued growth leading to an evolving enterprise risks. Additional challenges include ongoing capital needs, some of which will be debt funded and a considerable net pension liability.

Exhibit 1

UVA's exceptional market strength supports revenue growth prospects while budgetary discipline supports credit quality



Source: Moody's Ratings

Credit strengths

- » Excellent student demand and sponsored research prowess for flagship university with broad geographic reach
- » Superior wealth and liquidity with \$14.9 billion of total cash and investments for fiscal year 2023
- » Exceptional strategic positioning supported by strong planning, risk management and ongoing prospects to support programmatic investments
- » Medical center's prominent clinical reputation supports ongoing ability to compete for patient care revenue
- » Remarkable donor support with total gift revenue of \$389 million in fiscal 2023

Credit challenges

- » Patient care revenue (55% of fiscal 2023 operating revenue) enterprise growth introduces increased potential operating performance volatility
- » Considerable \$4 billion of total debt heightens importance of strong operating performance and disciplined treasury management
- » Strategic plans to ramp up sponsored research activity will face strong competition and require substantial institutional funding

Rating outlook

The stable outlook reflects Moody's expectations of continued excellent student demand and philanthropic support. It also reflects expectations of EBIDA margins over 10%, maintenance of superior financial resource levels and manageable future borrowing.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Deterioration in operating performance including performance of patient care enterprise
- » Material deterioration in total cash and investments or unrestricted liquidity
- » Marked increase in financial leverage

Key indicators

Exhibit 2
UNIVERSITY OF VIRGINIA

	2019	2020	2021	2022	2023	Median: Aaa Rated Public Universities
Total FTE Enrollment	24,338	24,378	24,835	24,850	24,979	61,130
Operating Revenue (\$000)	3,559,875	3,699,185	3,805,724	4,544,165	5,268,364	6,655,101
Annual Change in Operating Revenue (%)	5.1	3.9	2.9	19.4	15.9	6.1
Total Cash & Investments (\$000)	10,729,817	11,211,474	16,388,716	14,903,253	14,892,040	11,713,943
Total Adjusted Debt (\$000)	3,751,178	4,276,302	4,968,419	5,606,931	5,695,461	5,718,895
Total Cash & Investments to Total Adjusted Debt (x)	2.9	2.6	3.3	2.7	2.6	2.9
Total Cash & Investments to Operating Expenses (x)	3.0	3.2	4.5	3.5	2.9	2.0
Monthly Days Cash on Hand (x)	192	211	251	238	186	206
EBIDA Margin (%)	10.3	13.4	14.5	16.1	12.4	11.3
Total Debt to EBIDA (x)	6.3	5.4	5.7	5.1	6.1	3.6
Annual Debt Service Coverage (x)	3.7	5.1	5.1	4.5	5.0	3.7

Source: Moody's Ratings

Profile

The University of Virginia serves as the flagship university of the Commonwealth of Virginia and is one of the nation's leading higher education institutions. UVA enrolls around 25,000 full-time equivalent (FTE) students, and expects to continue a period of measured enrollment growth in the coming years. In addition to its undergraduate program in Charlottesville and the College at Wise, UVA has other highly regarded graduate and professional programs which comprise approximately 30% of the enrollment. The University of

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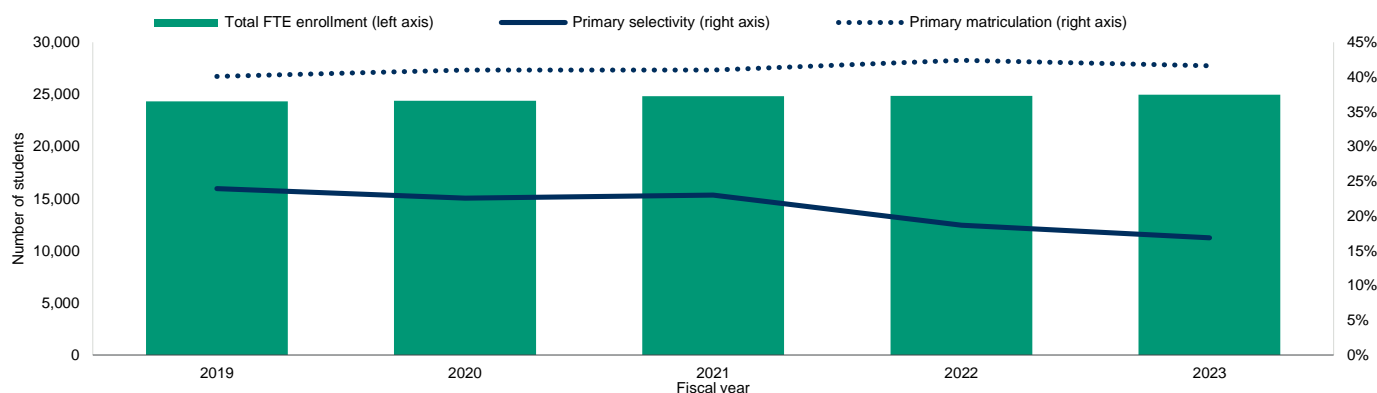
Virginia Medical Center is an integrated healthcare network and includes a 696-bed Level 1 trauma center in Charlottesville. Patient care revenue comprised 55% of the university's \$5.3 billion of operating revenue in fiscal 2023.

Detailed credit considerations

Market profile

UVA's excellent academic reputation, strong philanthropic support, and ability to garner external grant funding underpin its exceptional strategic positioning. The university benefits from substantial scale with operating revenue \$5.3 billion in fiscal 2023 and nearly 25,000 full-time equivalent students. Approximately one-third of undergraduate students are drawn from outside of Virginia. Demand among this population of out-of-state students remains particularly strong. UVA continues its goal of increasing socioeconomic diversity and continues to be ranked highly as a good value in higher education.

Exhibit 3
Exceptional demand for UVA supports continued enrollment management stability prospects



Source: Moody's Ratings

UVA remains well positioned to maintain its reputation as a leading research institution, and the university received \$532 million in grants and contract awards in fiscal 2023, in line with recent momentum under the university's strategic plan. UVA is also one of the nation's leaders in fundraising among public and private universities. In December 2023 it exceeded the \$5 billion target of its comprehensive campaign 18 months ahead of schedule and continues to benefit from momentum supporting the mission of the university.

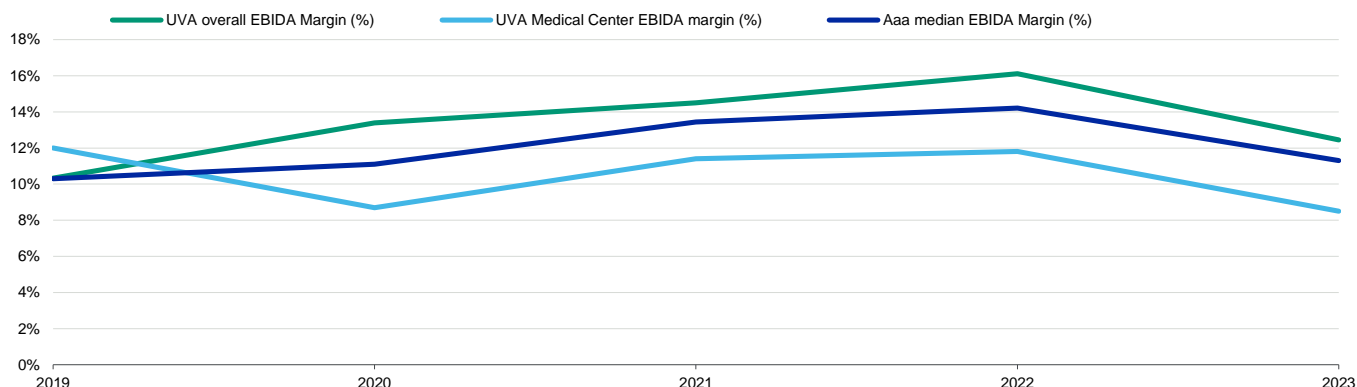
Operating performance

UVA's large, diversified revenue base and multiyear financial planning support Moody's expectations of continued healthy operating performance. For the three years ending in fiscal 2023, UVA posted an average operating margin of 4.6%. Preliminary guidance for fiscal 2024 points to solid operating performance with most revenue streams outpacing budget. In order to fund incremental investments, UVA continues to pursue operational efficiencies and alignment with strategic priorities.

The University of Virginia Medical Center (UVAMC) remains an integral component of UVA's research and clinical mission, but also represents a risk factor for UVA in light of the evolving challenges facing the healthcare industry. UVAMC produced a 1.8% operating margin on revenue of \$3.0 billion in fiscal 2023. UVAMC enjoys a distinct market position as the provider of high-level tertiary and quaternary services. In order to drive referral volumes for high acuity patients, the center continues to undertake strategic partnerships within Virginia in a pattern likely to continue.

Exhibit 4

While the Medical Center's operating performance is not as strong as the overall university, UVA's still outperformance peers



Source: Moody's Ratings

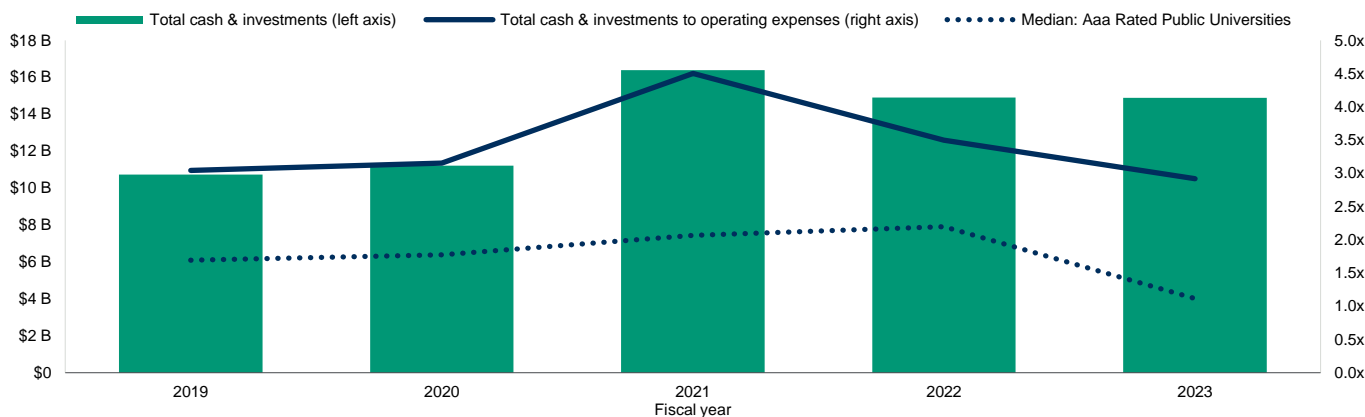
Wealth and liquidity

UVA's superior financial resources will continue to provide an excellent financial buffer relative to debt and expenses. As of the end of fiscal 2023, total cash and investments stood at \$14.9 billion or over \$590,000 per student. Spendable cash and investments of \$12.3 billion as of June 30, 2023 covered total debt by 3.1x and covered annual expenses by 2.4x.

For the period ending June 30, 2023, the University of Virginia Investment Management Company (UVIMCO) pool had a 2.0% annual return. While that period was weaker than some peers, the university's sustained period of relative outperformance and new gifts have supported long-term resource growth ahead of many peers. UVIMCO has primary responsibility for the oversight of the university's investment portfolio and currently employs 35 full-time staff members. The pooled fund's asset allocation is significantly weighted toward alternative structures.

Exhibit 5

UVA's total cash and investments relative to expenses compares favorably to the Aaa median



Source: Moody's Ratings

The P-1 rating on the commercial paper program reflects the university's healthy support for maturing CP with internal liquidity, market access and treasury management. The combination of internal reserves and external bank facilities provide sound coverage of UVA's \$500 million commercial paper program. Across the tax-exempt, taxable and extendable tax-exempt series, the issuing and paying agent agreement includes a maximum \$200 million limit on any five consecutive days. As of March 31, 2024, UVA had no CP outstanding and management indicates limited plans to increase use of the program over the coming months. UVA's discounted daily liquidity of around \$1.5 billion was comprised of US Treasuries, money market funds and bank deposits as of that same date. In

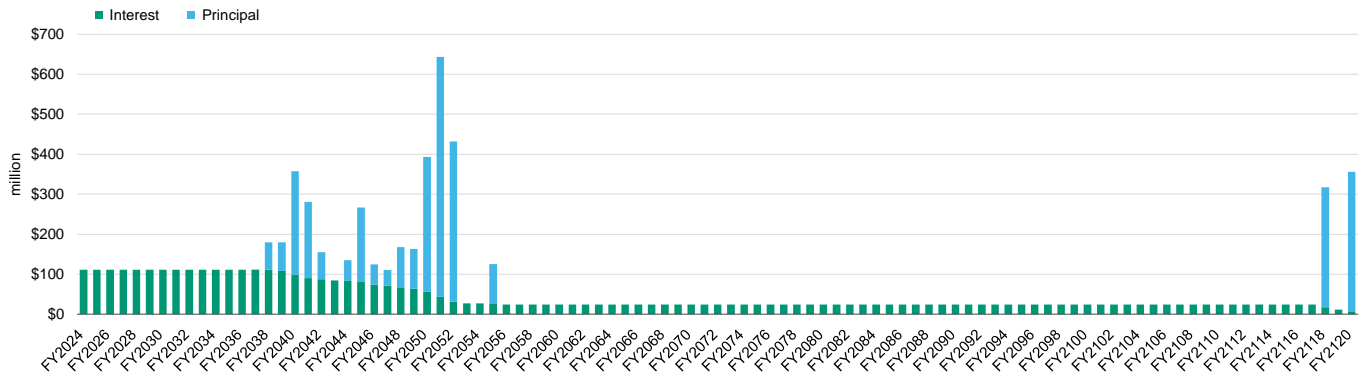
addition to internal reserves, UVA has \$500 million in backup bank facilities and general use lines of credit from four P-1 rated banks with staggered expiration dates.

Leverage and coverage

UVA's substantial wealth, treasury management discipline and sound operating performance should continue to supports its debt capacity. Multiple sources of capital investment including philanthropic and state support should limit future borrowing plan. In addition, the university's internal bank provides a source of internal capital for the various capital initiatives over time. Debt service to operations remains manageable and was 2.6% in fiscal 2023 but remains more manageable because of limited amortization. Total debt of the university and its affiliated foundations was \$4.0 billion and is predominantly fixed rate, with around 8% of debt being variable rate. While a portion of the university's debt is regularly amortizing, UVA continues to structure the bulk of its debt repayment with bullet maturities. With the university's abundant liquidity and treasury management, these bullet maturities do not create a material credit challenge.

Exhibit 6

Prudent treasury management offsets use of bullet maturities and delayed amortization including century bonds for UVA's \$3.3 billion of general revenue bonds



Source: University of Virginia

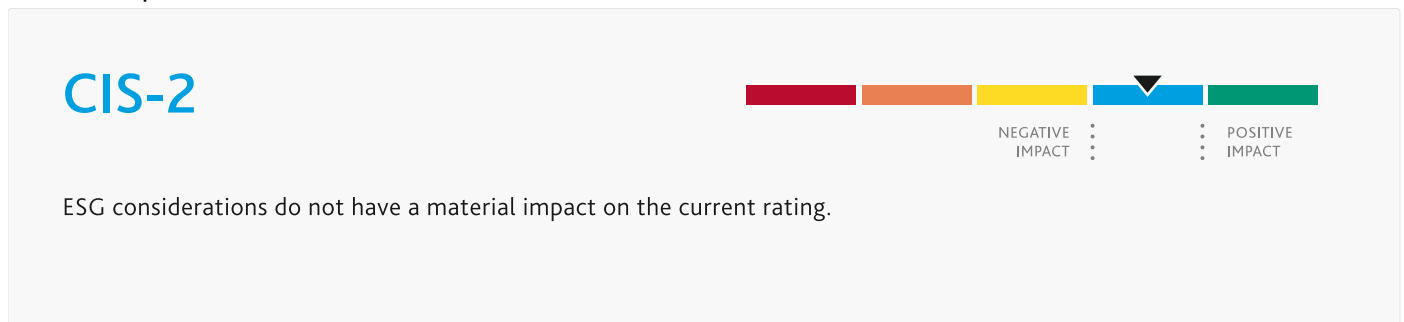
The university has manageable additional debt-like obligations, largely through its participation in the state's multiple employer, cost sharing defined benefit plans. The largest is the Virginia Retirement System State Employee Retirement Plan. The Moody's three-year average adjusted net pension liability was \$1.5 billion for fiscal 2023.

ESG considerations

University of Virginia's ESG credit impact score is CIS-2

Exhibit 7

ESG credit impact score



Source: Moody's Ratings

The University of Virginia's **CIS-2** indicates that ESG considerations are not material to the current rating. The university's **CIS-2** incorporates manageable exposure across most categories combined with exceptionally strong student demand and excellent financial resources partially mitigating ESG risks.

Exhibit 8

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Environmental risks are **E-2**. The university's location in Charlottesville exposes it to manageable climate risks. The university has undertaken several sustainability initiatives including a goal to be carbon neutral by 2030 and fossil fuel free by 2050. In addition to these stewardship goals, the framework seeks to enhance the impact of its sustainability related research and develop curricular responses to meet its goals.

Social

The university's social risks are **S-2** and credit quality benefits from its exceptional market strength. Good customer relations with key stakeholders is supported by its favorable student demand, along with strong donor support, solid per student state funding, and expansive sponsored research activity. The university's educational and clinical reputation meaningfully mitigates the risks related to its substantial patient care exposure. That exposure does introduce the social risks of healthcare including reliance on public payors in competitive markets. The moderately negative human capital challenges include faculty tenure exposure, and need for specialized faculty and staff introducing higher labor costs.

Governance

UVA's governance risk score is **G-2**. Financial oversight is positive with excellent treasury management and financial planning. Combined with sound risk management, this financial stewardship helps mitigate other risks. In line with many peers, the university's board structure and organizational structure is moderately negative. The Board of Visitors is comprised of 17 members, all appointed by the governor of Virginia and confirmed by the state legislature along with one nonvoting student member appointed by the board as well as a faculty representative. At least 12 members must be residents of Virginia. The university's organizational structure includes reliance on affiliated foundations and other support organizations to support its mission. Balancing the diverse interests of UVA's stakeholders introduces organizational complexity. That diversity includes the unique interests of the commonwealth, alumni, key donors, students, employees and patients.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.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.

Exhibit 9

University of Virginia

Scorecard Factors and Sub-factors	Value	Score
Factor 1: Scale (15%)		
Adjusted Operating Revenue (USD Million)	5,268	Aaa
Factor 2: Market Profile (20%)		
Brand and Strategic Positioning	Aaa	Aaa
Operating Environment	Aa	Aa
Factor 3: Operating Performance (10%)		
EBIDA Margin	12%	A
Factor 4: Financial Resources and Liquidity (25%)		
Total Cash and Investments (USD Million)	14,892	Aaa
Total Cash and Investments to Operating Expenses	2.9	Aaa
Factor 5: Leverage and coverage (20%)		
Total Cash and Investments to Total Adjusted Debt	2.6	Aa
Annual Debt Service Coverage	5.0	Aaa
Factor 6: Financial Policy and Strategy (10%)		
Financial Policy and Strategy	Aaa	Aaa
Scorecard-Indicated Outcome		Aa1
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 Ratings

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