CREDIT OPINION
6 March 2024

Send Your Feedback

Contacts

Patrick Ronk +1.212.553.3623
Analyst
patrick.ronk@moodys.com

Michael Osborn +1.212.553.7799
VP-Senior Credit Officer
michael.osborn@moodys.com

Nicole Serrano +1.212.553.4143
VP-Sr Credit Officer
nicole.serrano@moodys.com

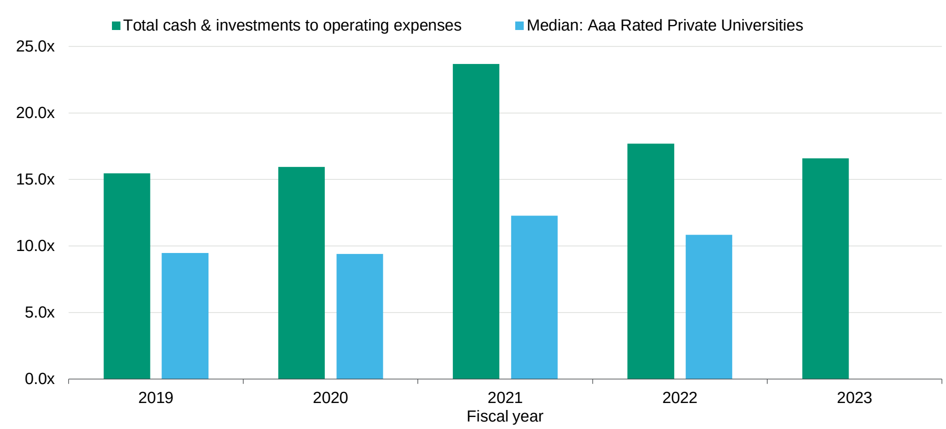
Grinnell College, IA

Update to credit analysis

Summary

Grinnell College's (Aaa stable) credit quality reflect the college's exceptional wealth, disciplined financial management and robust student demand, all of which support its excellent brand and strategic positioning as a small private liberal arts college. The college's substantial financial resources, with $2.6 billion in total cash and investments in fiscal 2023, continue to provide exceptional coverage of operations and debt. Liquidity remains substantial, with over 860 monthly days cash on hand despite 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 resources for further strategic investments. The college's no-loan policy supports its excellent student demand, with enrollment stable around 1,738 full-time equivalent (FTE) students. Offsetting credit considerations for the college include a small operating base, a heavy reliance on investment income, smaller philanthropic support relative to peers and the potential for limited net tuition revenue growth because of its need blind and loan-free model.

Exhibit 1
Grinnell's financial resources provide exceptional coverage of expenses and broad financial flexibility



Source: Moody's Investors Service

Credit strengths

» Strong overall wealth, with over $2.6 billion of total cash and investments in fiscal 2023, much of which is unrestricted, supporting the college's mission and strategic investments

» Robust monthly liquidity with 864 monthly days cash on hand; more than three times that amount of coverage with annual liquidity

» Exceptional financial policy and strategy, with prudent expense management and a three-year average EBIDA margin of 30.5%

» Excellent student demand stemming from Grinnell's national academic reputation with a competitive need-blind admissions policy and no student loan initiative, reflected in the college's high selectivity with just 12.7% of fall 2023 applicants admitted

Credit challenges

» Heavy reliance on investment income, at 66% of total operating revenue for fiscal 2023, requiring careful endowment management and long-term planning

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

» Weaker philanthropic support compared to Aaa-rated peers

Rating outlook

The stable outlook reflects Moody's expectations that Grinnell will maintain strong annual operating performance, excellent student demand and consistent growth in wealth. 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 below the reported 864 monthly days cash on hand in fiscal 2023

» Sustained thinning of operating performance with EBIDA margins below 20% and weakened debt service coverage over multiple fiscal years

» Substantial increase in debt that results in outsized financial leverage relative to the Aaa median of total cash and investments to total adjusted debt of 8.3x

Key indicators

Exhibit 2
GRINNELL COLLEGE, IA

	2019	2020	2021	2022	2023	Median: Aaa Rated Private Universities
Total FTE Enrollment	1,701	1,470	1,730	1,732	1,738	8,799
Operating Revenue ($000)	155,049	161,266	150,225	188,775	196,821	1,813,402
Annual Change in Operating Revenue (%)	1.8	4.0	-6.8	25.7	4.3	17.5
Total Cash & Investments ($000)	2,147,833	2,167,564	3,031,580	2,579,720	2,614,884	14,990,306
Total Adjusted Debt ($000)	172,575	166,675	221,470	217,975	214,325	1,329,115
Total Cash & Investments to Total Adjusted Debt (x)	12.4	13.0	13.7	11.8	12.2	8.3
Total Cash & Investments to Operating Expenses (x)	15.5	15.9	23.7	17.7	16.6	10.8
Monthly Days Cash on Hand (x)	2,256	1,521	2,032	1,392	864	1,151
EBIDA Margin (%)	20.7	26.6	27.8	33.6	30.2	23.9
Total Debt to EBIDA (x)	5.4	3.9	5.3	3.4	3.6	5.2
Annual Debt Service Coverage (x)	3.1	4.2	3.6	6.6	5.9	5.6

Source: Moody's Investors Service

Profile

Grinnell College is a small private, not-for-profit college located in Grinnell, IA. In fiscal 2023, Grinnell generated operating revenue of $197 million and enrolled 1,738 full-time equivalent (FTE) students in fall 2023. The college is highly selective while committed to financial access, being both need-blind and meeting 100% of an accepted student's demonstrated need.

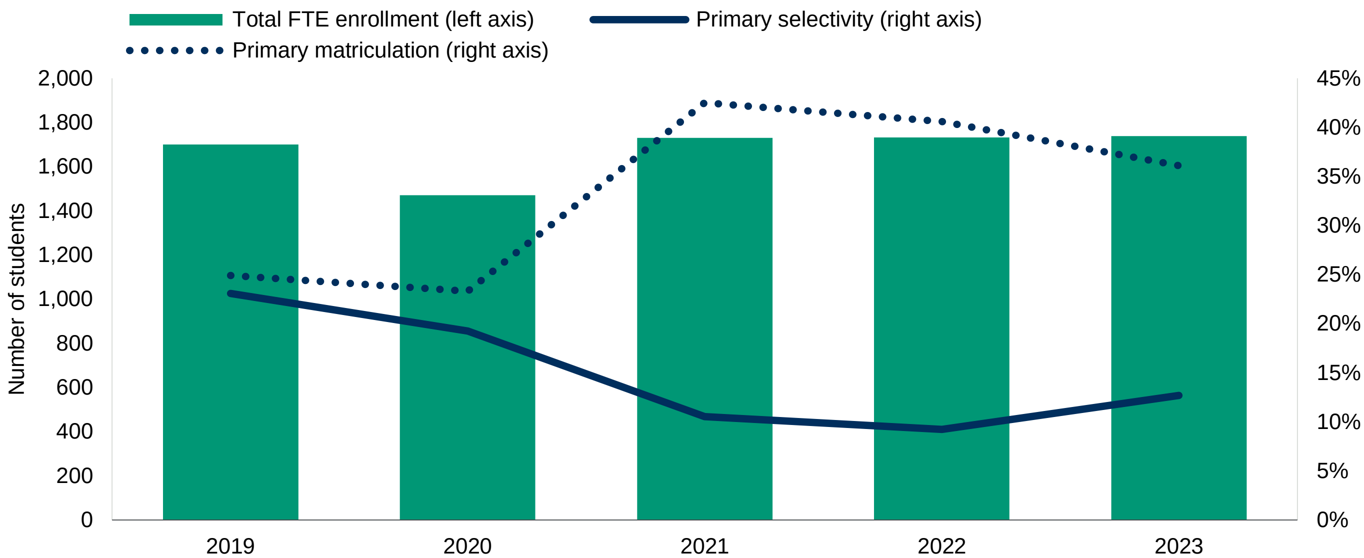
Detailed credit consideration

Market profile

Grinnell will maintain its excellent brand and strategic position as a highly selective and nationally renowned private liberal arts college. College leadership reports that Grinnell remains one of seven institutions in the US that meets fully demonstrated need and offers need-blind, no-loan and test optional policies. Enrollment remains stable at 1,738 FTE undergraduate students. The college maintains broad geographic reach for its applicant pool, and currently enrolls students from 49 states. Net tuition revenue remains steady despite the shift to the no-loan model, while fiscal 2023 net tuition per student of $20,412 is in line with the fiscal 2019 amount of $20,546. Philanthropic support is solid, but the college's three-year average gift revenue of $11.8 million remains below most similarly rated peers.

Exhibit 3

The college's excellent brand and strategic position is reflected in its high selectivity and matriculation



Data are for the Fall of each academic year

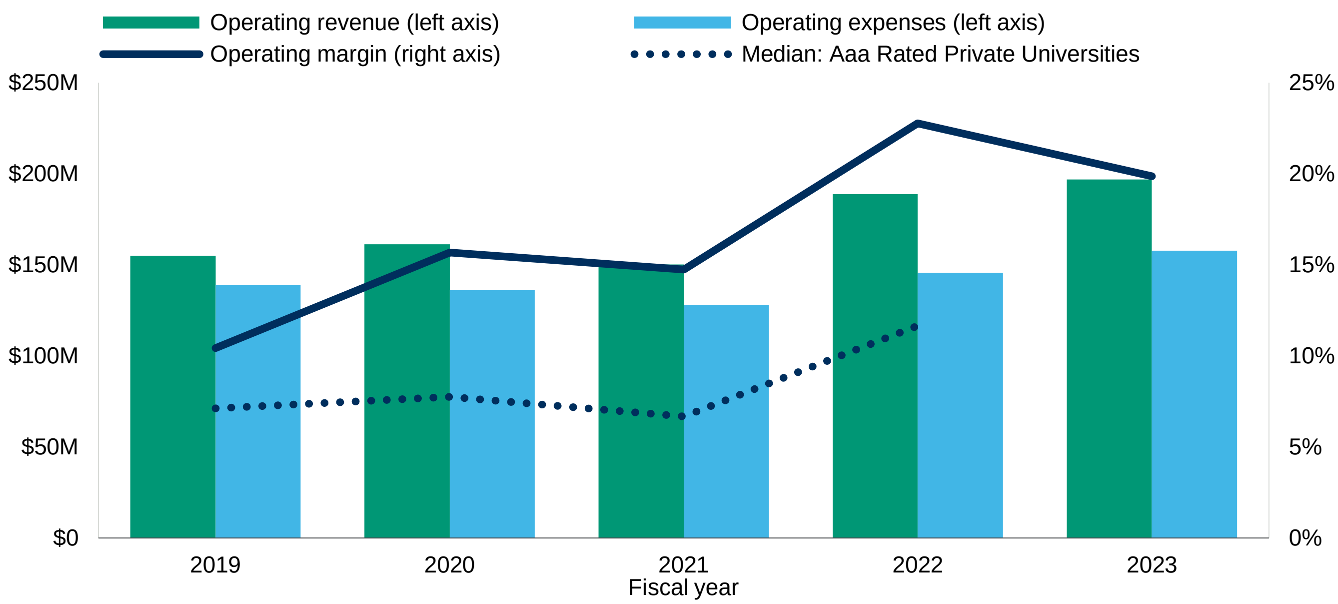
Source: Moody's Investors Service

Operating performance

Grinnell's exceptional financial policy and strategy, supported by an experienced and disciplined budget management team, will continue to produce strong annual operating results. The college remains committed to generating strong operating and EBIDA margins. Fiscal 2024 results are expected to be in line with the college's three-year average EBIDA margin of 30.5% and three-year average annual debt service coverage of 5.4x. Grinnell remains highly reliant on investment income to fund operations, comprising 66% of total revenue in fiscal 2023. Investment income will remain crucial to Grinnell's long term budgeting given limited prospects for net tuition revenue growth as a result of the college's no-loan and need-blind policies, likely exposing the college to further investment market risk over time. Favorably, the college has a demonstrated track record of growing its endowment and prudently managing its spend rate. The college holds ample operating reserves and liquidity to weather unexpected revenue interruptions.

Exhibit 4

Grinnell's exceptional operating performance outpaces Aaa peers



Source: Moody's Investors Service

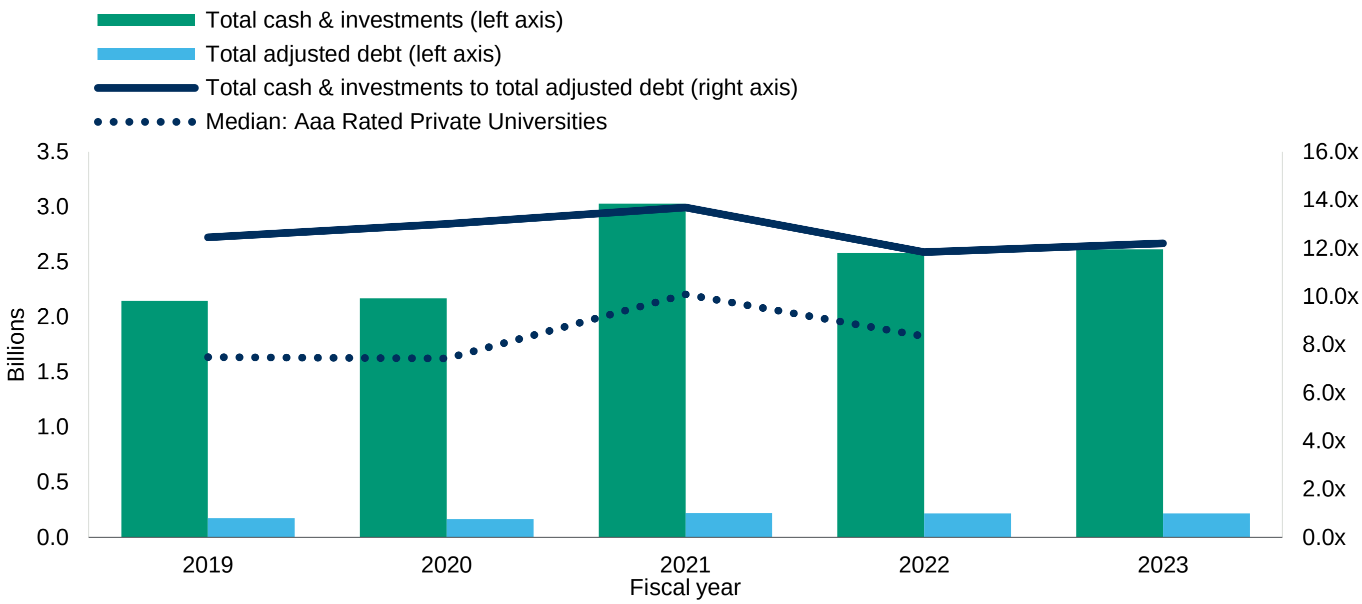
Financial resources and liquidity

Robust wealth will continue to be a key strength for Grinnell's exceptional credit quality. In fiscal 2023, total cash and investments totaled $2.6 billion with nearly $1.9 billion in unrestricted net assets. Monthly liquidity remains robust with over 860 monthly days cash on hand in fiscal 2023. The college's experienced investment team provides responsible stewardship over its assets and wealth, demonstrated by steady growth and solid long-term returns. The college invests a large portion, about 60%, of its endowment in illiquid and structured investments. Grinnell does, however, maintain sizable liquid reserves and conducts regular liquidity stress testing to ensure ample liquidity. Grinnell's unfunded commitments of $360 million in fiscal 2023 are manageable given the college's sizable wealth and liquidity.

Leverage

Grinnell's leverage profile will remain very manageable because of its exceptionally strong balance sheet and operating performance. Debt affordability is solid, with debt to EBIDA of 3.6x in fiscal 2023, stronger than most peers. The college does not anticipate the need for additional borrowing over the near-term. Age of plant is somewhat elevated at 18.5 years, but will decrease once ongoing capital projects and improvements are completed. The college is nearing completion on Renfrow Hall, its newest residence hall and civic innovation pavilion that aims to link the college closer with the City of Grinnell (A1 issuer rating). The college is also in the process of updating its campus master plan and a sizable capital reserve gives management the flexibility to plan and fund additional infrastructure improvements over the near-term without increasing debt.

Exhibit 5
Grinnell's leverage profile is very manageable as sizable wealth provides broad coverage of outstanding debt



Source: Moody's Investors Service

ESG considerations

Grinnell College, IA's ESG credit impact score is CIS-2

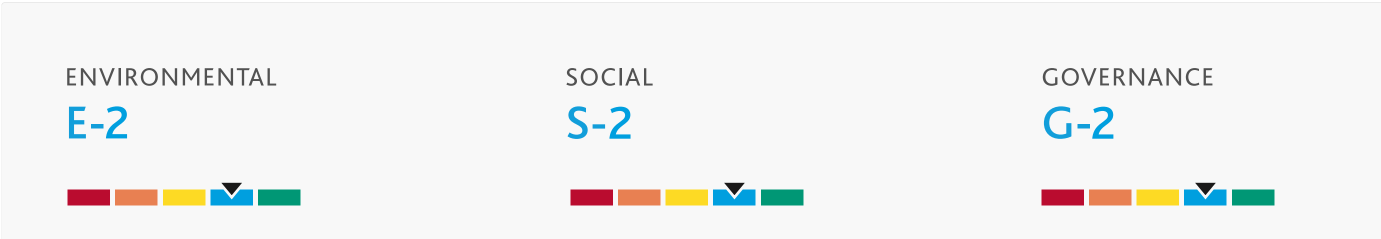
Exhibit 6
ESG credit impact score

ESG considerations do not have a material impact on the current rating.

Source: Moody's Investors Service

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

Exhibit 7
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

Grinnell College's exposure to environmental credit risks is (**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 (**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 mitigated by 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 (**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 exceptional wealth and liquidity that provide robust financial flexibility.

Exhibit 8

Grinnell College, IA

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	197	A
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	Aa	Aa
	Operating Environment	A	A
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	30%	Aaa
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	2,615	Aa
	Total Cash and Investments to Operating Expenses	16.6	Aaa
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	12.2	Aaa
	Annual Debt Service Coverage	5.9	Aa
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

REPORT NUMBER 1395827

CLIENT SERVICES

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

MOODY'S INVESTORS SERVICE