Rating Action: Moody's downgrades Middlebury College (VT) to Aa3; outlook stable

14 Jun 2018

New York, June 14, 2018 -- Moody's Investors Service has downgraded the rating on Middlebury College's (VT) $246 million of outstanding debt to Aa3 from Aa2. The outlook has been revised to stable from negative.

RATINGS RATIONALE

The downgrade reflects the impact of ongoing operating deficits, which will continue to hinder growth of financial reserves relative to peers. The college continues to take positive steps to achieve financial equilibrium. Management targets attaining operating equilibrium no later than fiscal 2021. In addition, although monthly liquidity has improved over the past several years, unrestricted liquidity remains very low relative to Aa-rated peers, particularly in light of weak operating performance. Favorably, Middlebury's sizeable wealth, donor support and excellent reputation as a selective liberal arts college will continue to help offset weak financial performance.

RATING OUTLOOK

The stable outlook is predicated on expectations of improving financial performance, with a cash flow margin with a 5% endowment spending rate sufficient to cover debt service by at least 1x in fiscal 2018 and of at least 10% in fiscal 2019 and thereafter. Inability to achieve these targets could result in a rating downgrade or negative outlook. The outlook also incorporates expectations of at least stable unrestricted liquidity and continued strong student demand.

FACTORS THAT COULD LEAD TO AN UPGRADE

Significant, sustained strengthening of operating performance
Outsized growth of cash and investments and unrestricted liquidity

FACTORS THAT COULD LEAD TO A DOWNGRADE

Inability to reduce supplemental endowment draws and generate operating cash flow margins of at least 10%
Deterioration of unrestricted liquidity
Weakening of spendable cash and investments relative to debt and operations

LEGAL SECURITY

Rated debt is an unsecured general obligation of the college.

PROFILE

Middlebury is a highly selective liberal arts college recognized for its strengths across academic disciplines. The college has 2,500 full-time equivalent students on its main campus in Vermont. An array of graduate and summer schools focusing on language, international studies, and literature contributes to annual operating revenue of $256 million.

METHODOLOGY

The principal methodology used in these ratings was Higher Education published in December 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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