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ISSUER COMMENT
18 March 2022

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RATING

Seniormost Rating [1]

Aa1	Stable

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University of Missouri System, MO

Annual comment on UM

Issuer profile

The University of Missouri System (Aa1 stable) is a large provider of public higher education and healthcare services with a consolidated revenue base of $4 billion. The academic enterprise consists of four campuses - Columbia, Kansas City, Rolla and St. Louis - serving a combined 70,000 students. The Columbia campus is the flagship institution and a public land-grant research university that accounts for just less than one-half of total enrollment. About 21% of students are seeking graduate or professional degrees.

The system also owns and operates a large healthcare enterprise (MU Health) that provides a broad spectrum of healthcare services. It is comprised of a network of hospitals and clinics, as well as a physician practice plan for faculty employed at the school of medicine. MU Health primarily serves a twenty-five county service area in central Missouri. Patient care revenue generated by MU Health accounts for about 41% of total system consolidated revenue.

Credit overview

The University of Missouri System's credit quality reflects its high essentiality, large scale and wealth, and strong management and governance. Its role as a large provider of public higher education and healthcare services underscores its excellent brand and strategic positioning despite ongoing exposure to demographic and competitive challenges. Consistent operating surpluses and sound liquidity reflect prudent financial management and oversight. Closely integrated enrollment, financial and capital planning contribute to excellent financial policy and strategy.

Exhibit 1

University of Missouri System, MO [2]

	2017	2018	2019	2020	2021	Median: Aa1 rated public universities
Total FTE Enrollment	55,350	53,509	52,609	51,967	51,907	46,698
Adjusted Operating Revenue ($ billions)	3.5	3.5	3.7	3.7	4.0	3.7
Annual Change in Operating Revenue (%)	8.3	1.6	4.8	-1.0	10.1	2.7
Total Cash and Investments ($ billions)	4.0	4.3	4.6	4.7	5.9	4.7
Total Adjusted Debt ($ billions)	4.3	4.5	4.6	5.3	5.6	2.5
Total Cash and Investments to Total Adjusted Debt (x)	0.9	1.0	1.0	0.9	1.0	1.6
Total Cash and Investments to Operating Expenses (x)	1.2	1.3	1.3	1.3	1.7	1.4
Monthly Days Cash on Hand	209	218	224	223	250	215
EBIDA Margin (%)	13.7	14.1	12.4	10.7	18.6	11.1
Total Debt to Cash Flow (x)	3.5	3.3	3.6	4.5	2.3	3.5
Annual Debt Service Coverage (x)	4.0	4.4	4.5	3.8	7.0	3.8

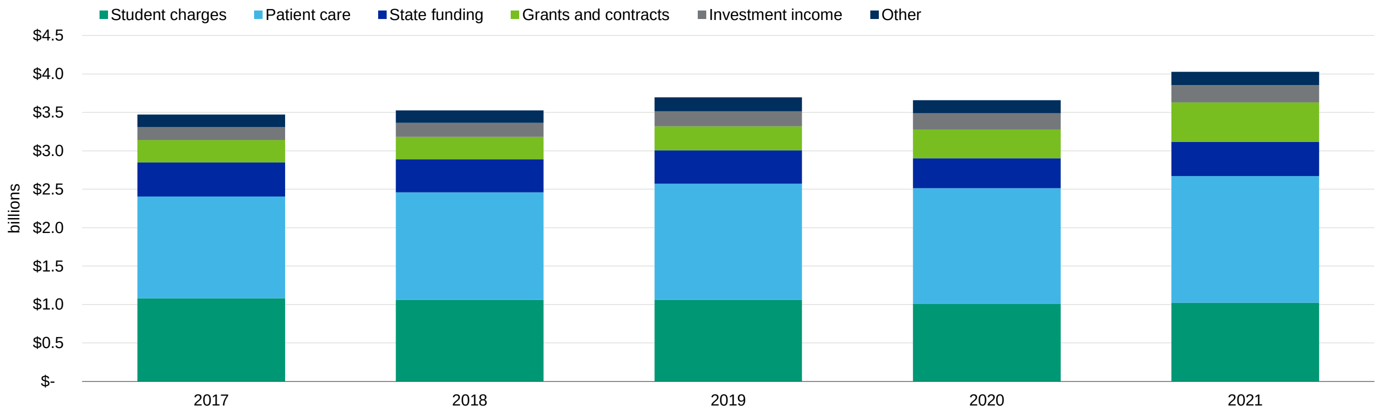
Source: Moody's Investors Service

Market profile: The system's excellent brand and strategic positioning will continue to be driven by its strong regional reputation within its public higher education and patient care enterprises. Good diversity across enrollment and healthcare operations supports substantial scale and helps mitigate the challenges associated with weak regional demographics and heightened competition. MU Health will remain a key driver of consolidated revenue gains due to its use of various growth strategies to build upon its broad spectrum of healthcare services delivered at its network of hospitals and clinical sites. Further, investments in research infrastructure and strategic hiring aid prospects of achieving institutional objectives of doubling research awards and materially increasing commercialization revenue over the next decade.

- A large $4 billion revenue base provides for significant economies of scale and has increased by 16% since fiscal 2017
- Total systemwide enrollment at about 52,000 full-time equivalent students has held relatively stable since fall 2019 despite ongoing regional demographic headwinds
- Enrollment diversification across programs, geography, and campus location provides some insulation against shifting economic conditions
- A combination of expansion, organic growth, and affiliations drove a substantial 24% increase in patient care revenue over the last five years to $1.6 billion for fiscal 2021
- Research activity is strategically important, but modest relative to peer competitors as measured by research expenses of $205 million representing 6% of total expenses

Exhibit 2

Large scale and good revenue diversity support an excellent brand and strategic positioning



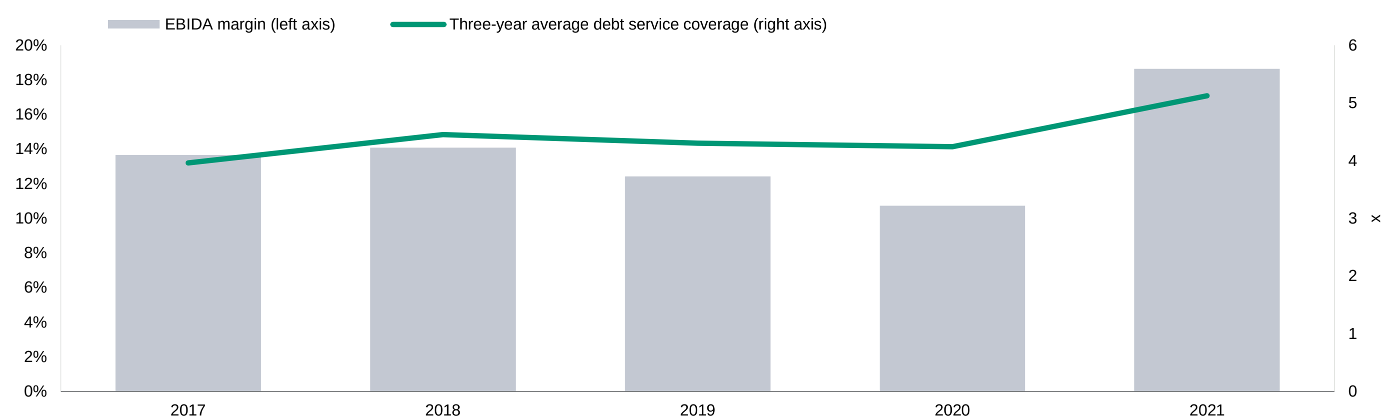
Source: Moody's Investors Service

Operating performance: Excellent financial strategy and policy will support a continued trend of positive operating performance and ample resources for strategic reinvestment. A detailed capital planning framework includes an identification of funding sources to finance the various infrastructure projects. Good coordination across the higher education and healthcare enterprises will support ongoing operating stability despite emerging expenditure pressures. An excellent operating environment is primarily driven by the favorable state funding for operations as well as federal funding to support research activity and student access and affordability. The operating environment score also accounts for the healthcare enterprise's sensitivity to federal and state policy.

- A strong 18.6% EBIDA margin for fiscal 2021 was well above the trailing five-year average of 13.1% due in part to careful expense management and substantial federal aid
- Debt to cash flow averaging 3.4x over the last five years reflects a strong ability to cover debt obligations from operations
- Very good revenue diversity, including within the largest individual sources - patient care (41%), net student revenue (25%), and grants and contracts (13%) - supports the resiliency of the operating model
- MU Health remains a primary driver of consolidated operating performance, with its five-year average operating margin of 7.6% outpacing each of the four system campuses
- State financial support is solid relative to peer competitors, with state funding per student of 8,614 up 12% from fiscal 2017

Exhibit 3

Solid operating performance and debt service coverage reflects prudent financial management



Source: Moody's Investors Service

Wealth and liquidity: Ample wealth and liquidity will continue to provide significant credit strength and financial flexibility. A mix of investment gains, philanthropy and retained cash flow will continue to contribute to steady financial reserve gains. Careful stewardship of financial assets by the internally managed office of investments increase prospects for sustaining long-term success. As of December 31, 2021, the system's ten-year annualized return of the long-term endowment was a strong 9.9%. The investment office is also responsible for managing both the operating pool and retirement assets associated with the single-employer defined benefit pension plan.

» Total cash and investments increased a strong 49% over the last five years to a substantial $5.9 billion for fiscal 2021

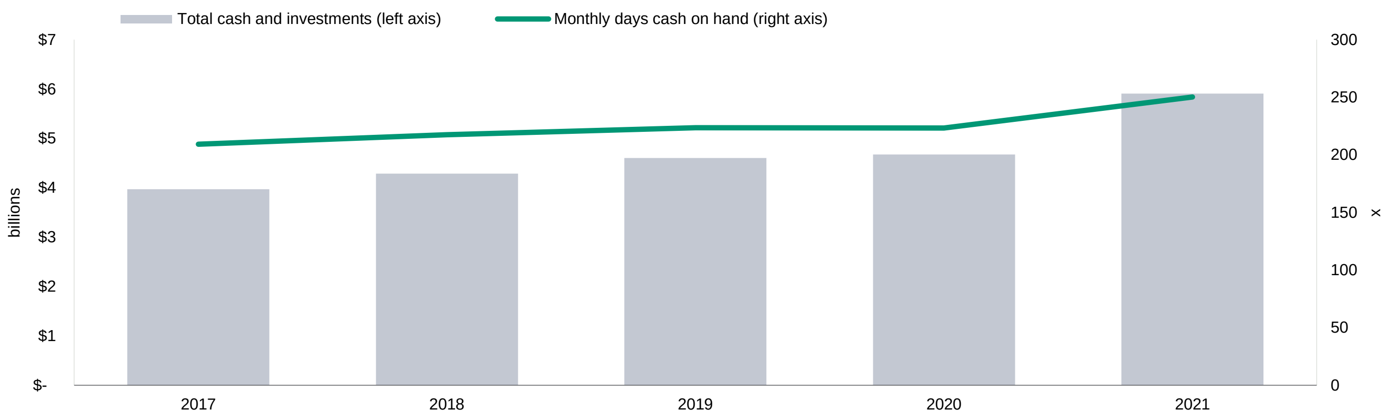
» Unrestricted monthly liquidity has increased steadily to $2.3 billion providing 250 days cash on hand contributing to significant operating flexibility

» Total cash and investments' coverage of expenses compares favorably to peer medians and grew to 1.7x from 1.2x since fiscal 2017

» The addition of $1.2 billion of cash and investments to the balance sheet for fiscal 2021 was largely driven by the 29.6% annual return on the long-term endowment

» Philanthropy remains an important driver of wealth accumulation, with consolidated three-year average gift revenue of $185 million

Exhibit 4
Ample wealth and liquidity provide for significant financial flexibility



Source: Moody's Investors Service

Leverage: Debt levels will remain manageable relative to wealth, scale and operations. A significantly higher level of adjusted debt compared to direct debt is primarily driven by pension exposure. About 95% of bonds are fixed-rate providing for minimal debt structure risk. Careful debt management and sound liquidity mitigate the risks associated with the commercial paper program, variable rate bond exposure ($79 million), and several bullet maturities. Future capital plans totaling about $1.7 billion will be largely funded by operations and external resources, as well as modest use of new debt. Favorably, the system continues to amortize existing debt at a steady pace, largely offsetting the new proposed leverage.

» Total cash and investments cover total direct debt and adjusted debt by a solid 3.4x and 1.0x reflecting manageable financial leverage, but a considerable pension liability

» Capital spending from cash flow is consistently above 1x depreciation, reflecting a commitment to reinvesting in campus facilities to maintain competitiveness

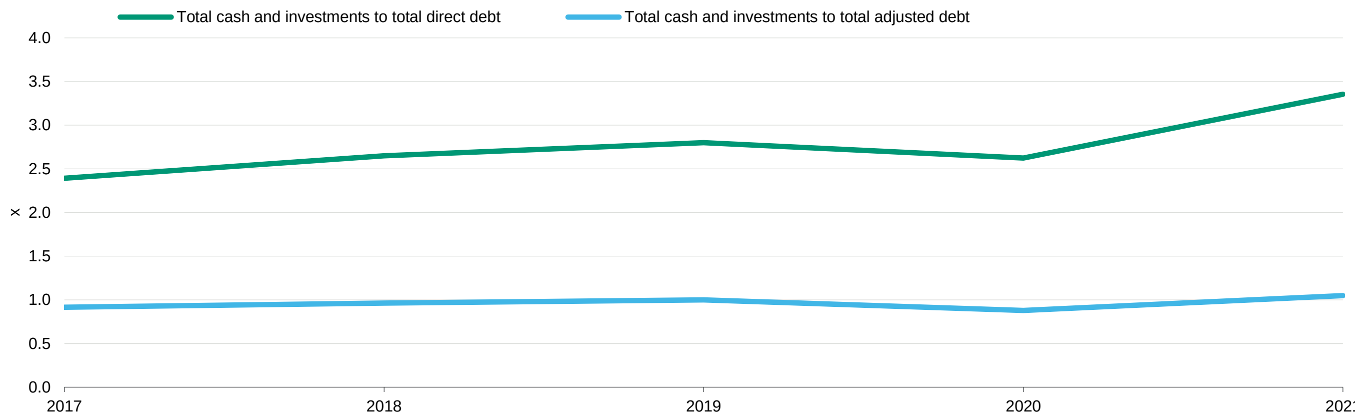
» Total adjusted debt of $5.6 billion for fiscal 2021 increased by 30% since fiscal 2017 largely driven by growth to the three-year average adjusted net pension liability

» Debt is not overly constraining to operations, with capital expenses accounting for about 8% of total expenses and total debt to revenue at just 0.4x

» Self-liquidity coverage of demand debt is 8.1x, providing significant capacity to tap a portion of the $375 million of commercial paper authorization to fund capital needs

Exhibit 5

Total direct and adjusted debt remain manageable relative to wealth



Source: Moody's Investors Service

Sector trends

We have a stable outlook for the US higher education sector as revenue growth picks up in fiscal 2022 with students returning to campus. Revenue growth is driven by modest increases in net tuition, but more significantly a strong rebound in revenue from auxiliary activities, ongoing boost from federal relief funding, a steady outlook for state funding, and higher endowment income stemming from strong investment returns in fiscal 2021. Higher inflation and labor shortages, however, will drive spending higher, squeezing margins. Very high investment market returns have bolstered institutions' wealth and liquidity while making strong giving to the sector more likely in 2022. Addressing social risks such as inequality of access and affordability as well as cyber risks will present a significant challenge amid strained budgets.

Endnotes

1 The rating referenced in this report is the college's or university's seniormost public rating.

2 Definitions of the metrics in the Key Indicators table are available in the appendices of our most recently published Higher Education medians reports, public university and private university. The appendices also provide additional metrics broken out by sector and rating category. We use data from a variety of sources to calculate the medians, some of which have differing reporting schedules. Median data for prior years published in this report may not match last year's publication because of data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals. Median data represents the most recent published median data, which in some cases could be from the prior fiscal year.

REPORT NUMBER 1320416

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