University of Ottawa, Canada
Update to Discussion of Key Credit Factors

Summary Rating Rationale
The Aa2 rating for the University of Ottawa reflects the university's strong balance sheet, modest debt burden and a history of positive operating outcomes although small consolidated deficits are now expected across the short-term. Although the university has faced expenditure pressures within a context of a slower pace of revenue growth, the university’s multi-year budgetary process has allowed management the vision required to implement measures conducive to minimizing the financial impact. The rating also reflects the university’s strong market position as a research intensive, medical/doctoral, bilingual university.

Although debt affordability may fall if deficits emerge, financial leverage remains stable

National Peer Comparison
The University of Ottawa is rated in the upper band of the rating range of Canadian universities, whose ratings span the range Aa1-A3. The University of Ottawa’s position relative to peers reflects lower-than-average debt and debt service levels, high proportion of graduate students and substantial liquidity relative to debt metrics. As with other Canadian-rated universities, pressures from restrictions to provincial funding are leading to greater difficulty in balancing budgets.

Credit Strengths
» Strong balance sheet providing substantial liquidity
» Low debt and debt service
» Excellent strategic position and continued student demand

Credit Challenges
» Pressures arising from provincial higher education framework, expenditure growth rates
» Funding pension liability likely to add to budget pressure

Rating Outlook
The outlook is stable.

Factors that Could Lead to an Upgrade
Increased provincial funding and greater flexibility to set tuition fees, combined with continued strengthening of the university’s balance sheet could, over time, apply upward pressure on the university’s rating.

Factors that Could Lead to a Downgrade
A loss of fiscal discipline, within a context of slowing revenue growth and sustained upward pressure on salaries and benefits, which leads to sustained deficits could exert downward pressure on the rating. An inability to address the unfunded pension liabilities, which will place more pressure on the university’s financial resources, could also place downward pressure on the rating.

Key Indicators

Exhibit 2
University of Ottawa
Year ending April 30

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
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<tbody>
<tr>
<td>Operating Revenue</td>
<td>791,226</td>
<td>808,090</td>
<td>833,307</td>
<td>860,564</td>
<td>897,038</td>
</tr>
<tr>
<td>[CAD Million] [1]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Change in</td>
<td>8.5</td>
<td>2.1</td>
<td>3.1</td>
<td>3.3</td>
<td>4.2</td>
</tr>
</tbody>
</table>
| Operating Revenue  |       |       |       |       |       |%
| Operating Cash Flow Margin (%) | 12.4  | 11.6  | 5.4   | 3.1   | 11.9  |
| Total Cash and  | 688,048 | 698,947 | 703,904 | 746,853 | 788,254 |
| Investments [CAD Million] |       |       |       |       |       |
| Spendable Cash and Investments to Operating Expenses [x] | 0.68  | 0.66  | 0.59  | 0.57  | 0.58  |
| Total Debt to Cash Flow [x] | 2.0   | 1.9   | 3.9   | 6.4   | 1.6   |

[1] Net of scholarship revenue and expenses
Source: Moody’s Investors Service, University of Ottawa Financial Statements

Detailed Rating Considerations
The rating assigned to debt issued by the University of Ottawa combines (1) a baseline credit assessment (BCA) for the university of aa2, and (2) a high likelihood of extraordinary support coming from the Province of Ontario (Aa2, negative outlook) in the event that the university face acute liquidity stress.

Profile
Located in Canada's capital, the University of Ottawa is a bilingual medical/doctoral university giving it a niche market position. The university offers a full range of academic and professional programs in 10 faculties, including Arts, Science, Management, Engineering, Medicine and Law. The University of Ottawa is one of Canada’s most research-intensive universities and has notable research programs in several faculties. The university experienced considerable growth in enrolment during the past decade, which also necessitated the undertaking of several significant capital projects on campus. Enrolment exceeds 45,000 full-time equivalent (FTE) students.
The University of Ottawa, like other universities in the province of Ontario, was incorporated by an act of the provincial legislature. The provincial government establishes broad strategies and targets for each university, provides operating grants and has the authority to control tuition fees, but each university retains autonomy to carry out its activities. While the Ontario Ministry of Training, Colleges and Universities monitors developments at individual universities and demands that universities be accountable, the “hands-off” approach to the university sector in Ontario is unlike that in some other Canadian provinces, such as Quebec and British Columbia, where the level of provincial control and oversight is considerably greater.

Baseline Credit Assessment
STRONG BALANCE SHEET PROVIDING SUBSTANTIAL LIQUIDITY

The University of Ottawa has demonstrated strong financial management through the growth of their net cash and investments. At April 30, 2015, spendable cash and investments, which exclude externally restricted endowments, totaled CAD497.2 million. This level of spendable cash and investments represented 2.9 times total debt, providing ample liquidity and a measure of security to debenture holders. This coverage has remained stable over the past 4 years. Although debt may increase in the medium-term, it is anticipated that liquidity levels will continue to offer a significant level of security for bondholders.

LOW DEBT AND DEBT SERVICE

The University of Ottawa has a comparatively low debt burden, which measured 15.7% of adjusted revenues as of April 30, 2015. After issuing a CAD150 million debenture in 2003 to fund the expansion of campus infrastructure, the debt burden has fallen slowly but steadily since. Upon issuance of the 40-year debenture, the university created a sinking fund, which had a value of CAD36.2 million as of April 30, 2015. The low level of debt also ensures that debt service remains highly manageable for the university. In 2014-15, interest expense consumed a low 1.4% of revenues. The university's three-year debt service coverage, measured by principal and interest payments covered by the operating cash flow, reached 8.0x in 2014-15.

The university has a limited number of capital projects either in progress or slated to begin. Although these projects are moving forward without the need for debt financing, the university has recently revised its application of its financing policy, raising the debt limit to CAD120 million. It is our understanding that this limit was not raised necessarily to allow for the higher level of borrowing, but merely to reflect the university's improved ability to manage a larger debt level. The university has a number of planned projects that continue to need financing and we expect debt to rise over the medium-term to support these projects, although debt levels and debt servicing should continue to be consistent with the rating.

EXCELLENT STRATEGIC POSITION AND CONTINUED STUDENT DEMAND

To meet its budget targets, the university follows a number of internal policies and controls, including using a rolling three-year budget plan, which incorporates conservative revenue estimates and expense allocations, as well as consistently monitoring departmental activities throughout the year to ensure any over-expenditures or revenue shortfalls are identified and addressed before the fiscal outcome is jeopardized. These practices have helped underpin the university's ability to minimize the impact of certain budgetary constraints and position the university to generate positive funds from operations during a period which other Ontario universities posted negative financial outcomes. Although budgetary challenges persist, it is our opinion that the university possess strong management to ensure short-term pressures will not result in long-term deficiencies. In the face of budgetary pressures, management has nonetheless continued to progress along its Destination 2020 long-term plan, including the hiring of additional professors to reduce the student to professor ratio and upgrade important IT systems.

Although the university will see some turnover in a handful of important positions over the next 18 months, including the President, Provost and VP Research we do not expect these changes to impact the multi-year planning approach utilized by the university.

The university also benefits from its unique market position, as a fully bilingual (English-French) university located in the capital of Canada. With total enrolment of roughly 42,000 students, a level that has been largely stable since 2012, the university enjoys a strong national reputation and is among Canada's top 10 research universities.

In May 2015, the university launched its largest ever fundraising initiative, the CAD400 million 'Defy the Conventional' fundraising campaign.
PRESSURES ARISING FROM PROVINCIAL HIGHER EDUCATION FRAMEWORK, EXPENDITURE GROWTH RATES

As the province continues to move toward balanced budgets, growth in government grants remain limited as part of the provincial government’s attempt to reduce overall expenditures. Certain changes to provincial funding, such as the move to a two year education program from a one year without additional funded spaces in 2015/16, has resulted in greater pressure for universities. Despite the slower growth in government funding, it continues to represent the majority of the universities revenues once government research funding and capital grants are also taken into consideration. Given the restriction on other sources of funding, pressures on government funding are not easily offset.

The current tuition framework that is in place until 2016/17 allows for a maximum annual increase of 3% to domestic undergraduate tuition, which has further restricted revenue growth. The university has met these pressures through implementing expenditure savings. Over the period 2010/11-2014/15, the 4-year compound annual growth rate (CAGR) of revenues measured 4.2%, compared to 7.1% over the period 2008/09-2012/13, while the CAGR for expenditures was reduced to 4.1% from 7.1% over the same 2 periods. Despite the balance these measures have proven, revenue in the past 2 years has been aided by strong investment returns which is not a sustainable planning approach.

With pressures expected to persist, the university is looking at targeting international and graduate students, both of which produce higher tuition revenue than undergraduate students as well as finding further efficiencies among its departments. Nevertheless, with enrolment levels expected to be stable over the medium-term, the university will have difficulty raising revenue above levels allowed by the current tuition framework. We will continue to monitor the university’s progress at establishing recurring initiatives that will promote balanced budgets in the future.

Given these challenges, we expect small consecutive deficits in both 2015/16 and 2016/17, but these should not materially impact the financial health of the university.

FUNDING PENSION PLAN LIABILITY LIKELY TO ADD TO BUDGET PRESSURES

The university’s pension fund position deteriorated following the financial crisis of 2009, which results in the University of Ottawa seeking relief under the province’s pension relief plan which allowed for a reduction in the immediate requirement to resolve funding shortfall concerns. While the university has made special payments over the past several years, totaling CAD2.9 million in 2014/15 (CAD9.5 million in 2013/14), and has returned the plan to surplus, a new valuation for January 2017 will likely emerge with a larger solvency deficit given the persistently low interest rate environment and expectations of continued low interest rates into the future. Unlike other provinces, Ontario does not exempt universities from funding their pension plans on a solvency basis. This may result in a continuation, or potential increase, of special payments the university must make, adding to budgetary pressure.

Discussions are underway in Ontario of the feasibility to allow Ontario universities to create a new multi-employer, jointly sponsored pension plan. Such a plan would be voluntary for universities to join, but would relieve universities of some of the pension pressure they are currently facing. We will continue to monitor this development and the potential it may have for the University of Ottawa, should the university pursue this option.

Extraordinary Support Considerations

Moody’s assigns a high likelihood of extraordinary support from the Province of Ontario (Aa2, negative outlook), reflecting Moody’s assessment of the perceived risk to the province’s reputation if any Ontario university were to default.

Moody’s also assigns a very high default dependence between the University of Ottawa and the Province of Ontario, reflecting the university’s and the province’s joint exposure to prolonged economic shocks. It also reflects the university’s reliance on provincial government grants for a sizeable portion of its overall revenues.
## Ratings

Exhibit 3

<table>
<thead>
<tr>
<th>Category</th>
<th>Moody’s Rating</th>
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<tr>
<td>UNIVERSITY OF OTTAWA, CANADA</td>
<td></td>
</tr>
<tr>
<td>Outlook</td>
<td>Stable</td>
</tr>
<tr>
<td>Senior Unsecured - Dom Curr</td>
<td>Aa2</td>
</tr>
</tbody>
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*Source: Moody’s Investors Service*
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