Education Market Update

Industry Consulting Team | Q1 2022

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Events

SACUBO Annual Meeting

May 8th-10th, 2022

San Antonio, TX

NACUBO Annual Meeting

July 16th-19th, 2022

Denver, CO

MISBO Annual Meeting

October 26th–28th, 2022

Savannah, GA

EACUBO Annual Meeting

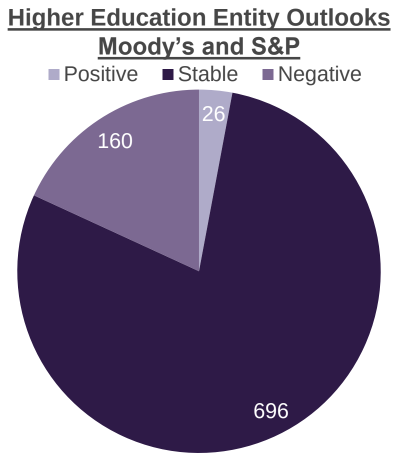
October 30th –November 2nd, 2022

New York City, NY

Both S&P and Moody's rate the higher education sector as stable citing successful responses to the pandemic by most colleges and universities, operating revenue increases with students back on-campus and record investment returns. Inflation, labor shortages, and social & cyber risks pose challenges sector wide.

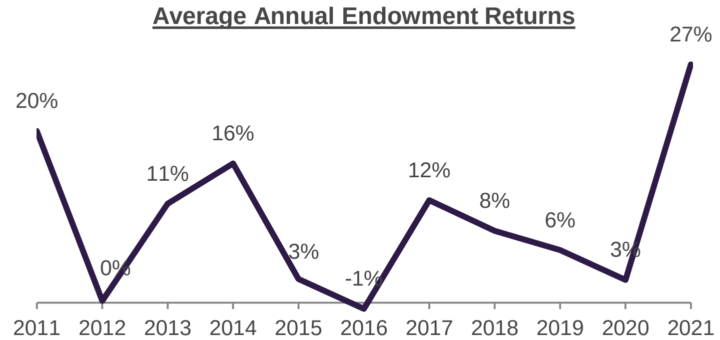
Stable Outlooks from S&P and Moody's

The Higher Education sector received stable outlooks from S&P and Moody's and both reports mention that the return to on-campus learning in the fall semester of 2021 helped to bolster operating revenues. The report also cites increased financial flexibility from sources such as more stable state funding budgets, federal relief funds, and strong investment returns. Between both Moody's and S&P there are 882 ratings and nearly 80% of those rating outlooks are stable heading into 2022.



Many universities and colleges increased their liquidity positions due to generous federal emergency funding totaling over $152B as well as record investment gains as endowment returns averaged a 27% gain in FY2021.

Moody's outlook report states that inflation and labor shortages will push spending higher and diminish margins. "Higher costs are emerging just as universities begin restoring some of the cuts that were made in fiscal 2021 to manage lower revenue caused by the pandemic." As a result many colleges and universities may be impacted as operating performance is strained.



Cyber Risks Remain Prevalent

With the continued increase in use of technology in areas like virtual learning, education institutions continue to be at risk of a ransomware attack or data breach. Moody's outlook report states "Universities' IT networks have long been vulnerable to breaches because of the multiple access points created by their thousands of users: students, faculty, researchers, administrators and contractors. That vulnerability has necessitated significant investment in protective systems and specialized staff."

According to data from IBM's Cost of a Data Breach Report 2021, the average total cost of a data breach globally was $4.24MM in 2021 and the average time to identify and contain a data breach increased from 280 days in 2020 up to 287 days in 2021. Over the last 5 years the average time to identify and contain has increased by nearly 12%. The average total cost of a data breach in the education industry actually decreased from $3.9MM to $3.79MM from 2020 to 2021. As education entities continue to optimize and upgrade their technology and introduce new efficiencies, it also increases their exposure to infiltration and thus increases their cyber security risk.

College and university leadership will need to proactively manage their potential cyber security exposure and be able to quickly react and respond to potential cyber threats.

TRUIST

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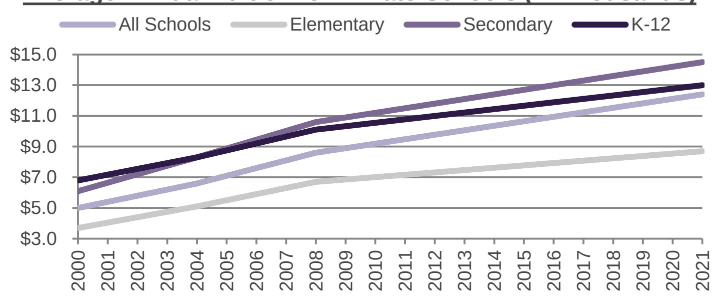
Inflationary pressures could cause schools to make tough decisions on how to increase tuition rates and decrease certain expenses. S&P gave the independent school sector a stable outlook as schools have shown resiliency through the pandemic. Many independent schools benefited from strong endowment returns during FY2021 which will provide increased financial flexibility for future operations.

Increasing Tuition Rates

Over the last 20 years, the average private school tuition has increased by nearly 150%. The largest increases have come from the secondary schools with an average tuition increase from $6.1k in 1999-2000 to $14.5k in 20-21. The U.S. consumer price index increased closer to 53% across the same 20 year period, and earlier in March 2022 the U.S. CPI hit a fresh 40-year high of 7.9% from a year earlier. School leadership groups across the country are faced with the dilemma of how to balance affordability fresh off of a pandemic where some schools made the strategic decision to hold tuition flat.

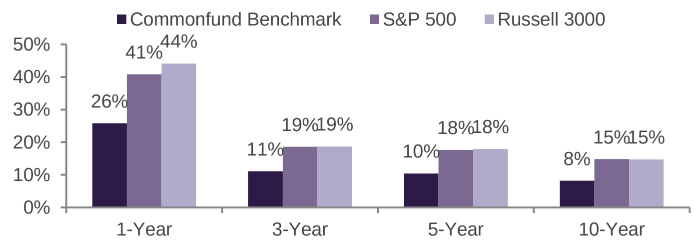
Average Annual Tuition for Private Schools (In Thousands)



S&P Sector View is Stable

In February of 2022, S&P released their latest U.S. Independent School Outlook & Medians report. S&P views the sector as stable citing "favorable demand and enrollment trends, supported by more flexibility for in-person learning, along with a recovering economy, healthy fundraising trends, and record endowment returns," as support for their sector view. S&P notes a few long term trends to watch for are around possible decreasing enrollment numbers due to U.S state migration patterns combined with shrinking birth rates and affordability especially with schools that are committed to enrolling a diverse student body as the pandemic negatively and "disproportionately affected low-income communities and populations of color." S&P also notes that the challenges facing the sector are not impacting all schools equally, and that the credit quality gap could widen between the stronger and weaker schools.

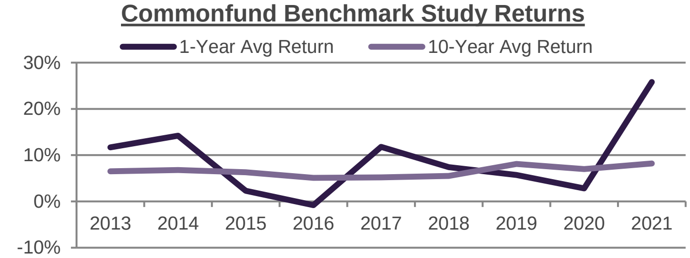
Average 1-Year, 3-Year, 5-Year & 10-Year Net Returns



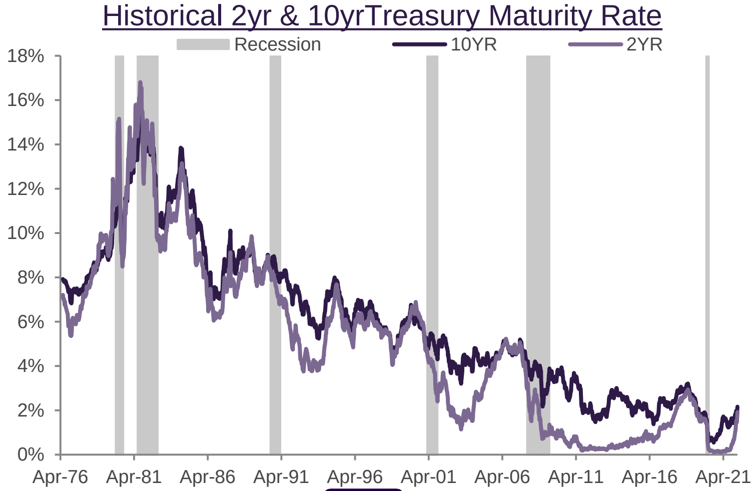
Independent Schools See Strong Endowment Returns in FY2021

The 2021 Commonfund Benchmark Study of Independent Schools stated that independent school endowments earned an average annual return of 25.8% during FY2021, a large increase from the FY2020 average annual return of 2.8%. The nearly 26% average return was the largest in the 17 year history of study. For the next closest return, 17.9%, you would have to go all the way back to FY2011. Many schools that were able to capitalize on the increased market returns find themselves in a strong position to finance future projects and maintain operations

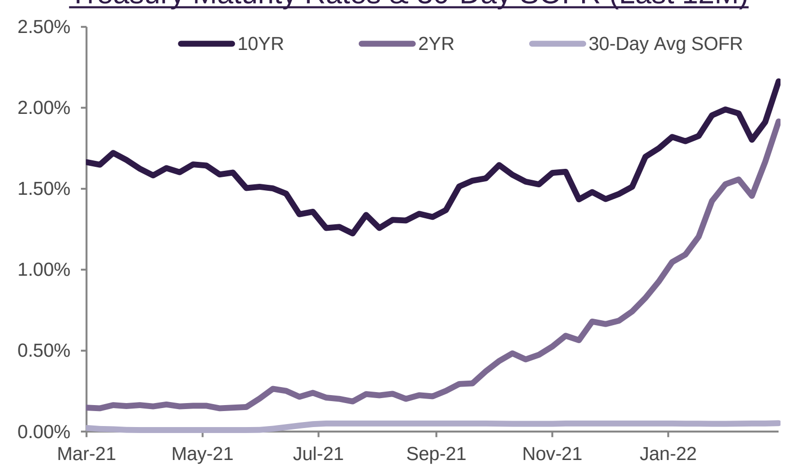
Commonfund Benchmark Study Returns



Historical 2yr & 10yrTreasury Maturity Rate



Treasury Maturity Rates & 30-Day SOFR (Last 12M)



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Sources: Forbes; IBM "Cost of a Data Breach"; Moody's Investor Services; Commonfund & NBOA Study of Independent School Endowments; S&P Ratings Direct; Educationdata.org; St. Louis Federal Reserve (FRED);