MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Grand Canyon University, AZ

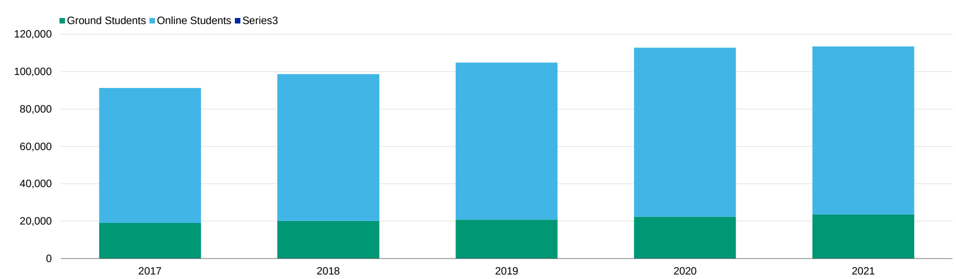
New Issuer

Summary

Grand Canyon University's (Ba1 stable) credit quality acknowledges its substantial and broad academic program diversity. Enrollment growth in online and on campus segments will provide the university with the ability to invest in new programs, facilities and service its debt. While the university benefits from a clear market niche with a record of traction amongst consumers, we expect ongoing competition especially for online students to intensify over the next decade. The degree of financial leverage also weighs on the rating with total cash and investments to debt well below sector medians. While the relationship between GCU and Grand Canyon Education (GCE) including elements codified in the Master Services Agreement (MSA) has demonstrated itself as high functioning, the longer term nature of the MSA and various exit payment provisions constrains the credit quality of the university. The MSA provisions include a 60% revenue share for almost all of GCU's revenue. The university is also relatively new in its life cycle as an independent university, and exposed to shifts in federal regulatory oversight and requirements.

On November 8, 2021 Moody's assigned initial issuer and debt ratings to Grand Canyon University.

Exhibit 1
While Grand Canyon's on Ground enrollment has grown it tilts heavily toward online enrollment
Headcount enrollment for September



Source: Grand Canyon University

Credit strengths

- Substantial scale with 2021 operating revenue of $1.3 billion aided by market savvy and sustained record of enrollment growth for on ground and online students
- Operating discipline with EBIDA margin of 12.9% in fiscal 2021
- Low average of age plant with recent capital investment translating to low deferred maintenance
- Sizeable $407 million of total cash and investments free from donor restriction provides some buffer relative to debt and operations but less than peers

Credit challenges

- Ongoing competition for enrollment with numerous competitors compounded by near total (97%) reliance on student revenue
- Durable Master Services Agreement with Grand Canyon Education consumes 60% of student revenue, which while fostering growth leaves less to fund education payroll, debt service and capital investment along with strategic program investments
- Material financial leverage with total debt at close to 1x revenue as growth ambitions will limit gains in financial reserves
- While recognized as a private, nonprofit corporation by IRS, the Department of Education treats the university as for-profit
- President of GCU is CEO and Board Chair of GCE resulting in potential conflicts of interest

Rating outlook

The stable outlook reflects expectations of some revenue growth and annual EBIDA in the $150 million range. Our forward view of liquidity is informed by ongoing capital investment plans with the majority of free cash flow going into facilities over the next few years, with the pace of capital facility investments moving in line with market and revenue changes. The stable outlook is predicated on prospects to maintain healthy headroom over the 55 Days Cash on Hand covenant. The outlook is also contingent on limited incremental debt as well as substantial headroom over the Debt Service Coverage Ratio as well as evidence of ongoing effective market access. The stable outlook also incorporates our expectations of credit favorable relationships with federal and state agencies.

Factors that could lead to an upgrade

- Significant growth in total cash and investments
- Marked improvement in operating performance and debt affordability
- Sustained operating history for Grand Canyon University including evidence of expanding independence from GCE

Factors that could lead to a downgrade

- Deterioration in operating performance
- Unfavorable changes in operating environment including federal regulatory or oversight changes
- Decline in unrestricted liquidity given already thin cushion
- Reduced ability to meet enrollment and student revenue growth targets

Key indicators

Exhibit 2
GRAND CANYON UNIVERSITY, AZ

	2019	2020	2021	2021 pro forma
Total FTE Enrollment	53,529	57,597	62,378	62,378
Operating Revenue ($000)	1,130,823	1,222,511	1,288,816	1,288,816
Annual Change in Operating Revenue (%)		8.1	5.4	5.4
Total Cash & Investments ($000)	325,655	307,603	407,438	407,438
Total Debt ($000)	1,070,543	1,046,075	1,160,764	1,197,852
Total Cash & Investments to Total Adjusted Debt (x)	0.3	0.3	0.4	0.3
Total Cash & Investments to Operating Expenses (x)	0.3	0.3	0.3	0.3
Monthly Days Cash on Hand (x)	115	100	126	126
EBIDA Margin (%)	13.2	13.2	12.9	12.9
Total Debt to EBIDA (x)	7.2	6.5	7.0	7.2
Annual Debt Service Coverage (x)	2.8	2.7	2.9	2.9

Pro form includes net impact of Series 2021B bonds
Source: Moody's Investors Service

Profile

Grand Canyon University is a large, Christian university based in Phoenix, Arizona is recognized by the IRS as not-for-profit university. Founded in 1949, the university has had nonprofit status for the majority of its years, but was reorganized as a for-profit university between 2004 and 2018. As of Fall 2021 the university enrolled roughly 113,000 headcount students across on campus, online and hybrid modes. Operating revenue was $1.3 billion in fiscal 2021 with over 97% reliance on tuition and auxiliary revenue.

Detailed credit consideration

Market profile: ground campus promotes brand awareness for competitive online market

Grand Canyon University has achieved remarkable growth over the last decade benefitting from savvy market analytics, efficient recruitment, and scalable instructional delivery. Profitability in many programs allowed the university invest in new academic programs as it now includes 295 graduate and undergraduate degrees programs, emphases and certificates. Enrollment and degree completions are concentrated in several program areas as shown in Exhibit 3, with Health Professions including nursing as well as Education among the larger programs. Leadership aims to grow on campus/ground enrollment to 40,000 headcount students with growth rates in the 5% to 6% range each year.

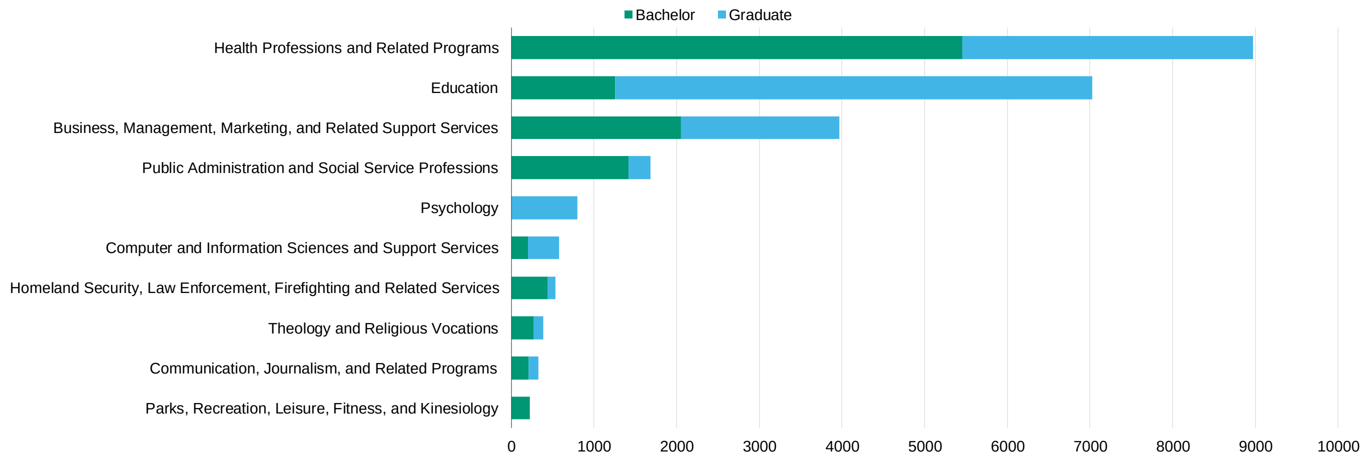
The university's pricing strategy for ground students aims to support access and a relative pricing advantage to many private higher education providers. Tuition has remained flat for thirteen years at $16,500, with the average net tuition revenue per student of $8,700 after institutional aid. Affordability extends to room and board rates as well, with an average of $8,628 per year.

The university's geographic draw has broadened over the recent past. For fall 2021, 38% of ground student came from Arizona, while 22% came from California. The university has made substantial investments in student life including intercollegiate athletics. The university is a Division I member of the Western Athletic Conference. These investments will serve as an important offset to likely increasing competition in the university's online segments.

Exhibit 3

Top three programs areas of Health Professions, Education and Business account for 80% of total degrees awarded

Bachelor and Graduate awards conferred 2019-2020, top 10 program areas by total awards



excludes certificate awards

Source: National Center for Education Statistics

As a formerly private, for-profit university with ongoing ties to its prior owner, GCU will continue to attract regulatory scrutiny. This scrutiny will likely be an abiding credit risk and informs our operating environment of fair. While recognized as a private, nonprofit corporation by the Internal Revenue Service, the Higher Learning Commission (the university's regional accreditor), and the State of Arizona, the US Department of Education treats the university as for-profit based on its "Review of the Change in Ownership and Conversion to Nonprofit Status of Grand Canyon University" dated November 6, 2019. The university is challenging the determination. The current status means the university must report under for-profit rules includes the 90/10 rule and different standards for the Financial Responsibility Composite Score. GCU received approximately $22 million from the Higher Education Emergency Relief Fund of the Coronavirus Aid, Relief, and Economic Security Act passed in March 2020. The University elected to use the majority of the institutional portion to provide additional student grants and utilized $3.3 million to offset housing refunds issued to students.

Operating performance: revenue share limits profitability

Grand Canyon University should continue to generate sound operating performance with EBIDA in the $120 million to $150 million range. The 60% revenue share for the broad services provided by GCE limits the university's net revenue and is applied to all student charges including incremental student housing revenue for dorms built after the conversion. The reliance on student charges is over 95% with limited other sources of revenue. The Master Services Agreement runs for 15 years, with optional 5 year renewals. Coordination between GCU and GCE should allow for positive operating performance and potential for scalable growth. While operating budget discipline and financial controls are very good, the fair financial policy score is weighed down by management's growth ambitions. The high pace of investment in facilities and new programs will continue to weigh on operating results and limit the ability to grow financial reserves as expenses continue to grow.

Wealth and liquidity: limited wealth relative to operating scale

Given its limited history post reorganization, GCU's wealth is primarily operating reserves. Total cash and investments were $407 million at June 30, 2021, with donor restricted net assets of under $6 million. Management projects measured gains in operating cash through fiscal 2023, but total cash and investments to operating expenses will remain relatively weak as expenses edge upward. Given the university's business model and the newness of its current incarnation, donor support will likely remain limited, a credit weakness relative to more established competitors.

Liquidity

GCU has limited liquidity and ongoing capital investments will likely limit retained surpluses over the next several years. Monthly liquidity of $407 million at June 30, 2021 translated to 126 monthly days cash on hand.

Leverage: substantial leverage with market access risk

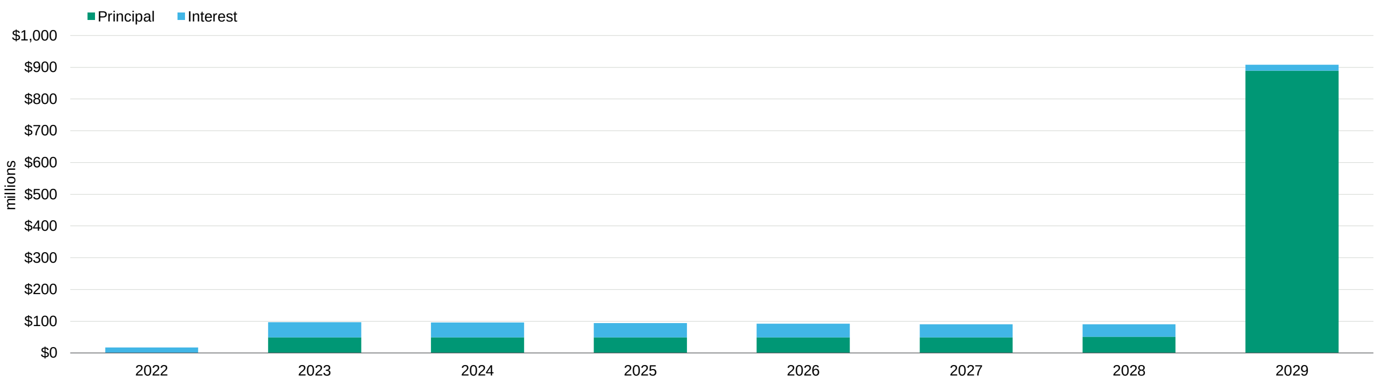
Following its reorganization in July 2018, Grand Canyon University acquired physical and other assets through an approximately $870 million sellers note. The university drew an additional approximately $200 million to fund approved capital projects, bringing total debt at the end of its first post conversion year to $1.1 billion, or 95% of operating revenue, which is another factor limiting financial flexibility. While revenue growth and operating performance has aided GCU's debt affordability, its goal of investing in facilities including student housing facilities will continue to limit gains in total cash and investments. At fiscal year 2021, the university's total cash and investments to total adjusted debt was 0.3x

Debt Structure

The proposed 2021 bonds have a relatively brief tenor with final maturity in fiscal 2029 and limited principal retirement in advance. This structure introduces market access and interest rate risks in advance of the scheduled maturity in 2029.

Exhibit 4

Series 2021B bonds have limited principal maturity prior to 2029



Source: Underwriters for Grand Canyon University

Legal Security

The obligation of the university, as currently the sole member of the obligated group, is a general obligation enhanced by pledged revenues which incorporate the majority of revenue including tuition. The bonds are also enhanced by a mortgage of the majority of the university's campus. While, an August 2021 appraisal for the 237 acres campus with around 70 buildings totaled just over $2 billion, sale proceeds in a distressed scenarios will remain uncertain.

Debt-related derivatives

None.

Pensions and OPEB

GCU has limited retirement benefit plan exposure. Some employees qualify to participate in a defined contribution plan. In fiscal 2021 the university's discretionary contributions to the plan were $1.8 million.

ESG considerations

Environmental

The university is exposed to environmental risks due to its location in the city of Phoenix. Based on data from Moody's affiliate Four Twenty Seven, the city is at high risk from heat stress and water stress is deemed a red flag. These risk factors potentially add longer term expenses associated with fortification of physical assets, utility costs, and business disruption.

Social

With broad online capability the university has weathered the pandemic relatively well with some reduction in student housing occupancy levels. As a lower cost provider and explicitly Christian university, GCU has a niche position that has allowed it to achieve enrollment growth and enroll a diverse student body. We expect competition for student to remain heated and newly formidable public universities could lead to market share erosion over time.

Governance

The university is fairly young in its current incarnation with a track record of successful implementation of enrollment management strategies and scalable growth. A primary governance consideration includes the point that the president of GCU is also the CEO and board chair of GCE. While the interests are aligned and codified, potential conflicts of interests exist between a publicly traded for profit service provider and a non-profit university. The university aims to mitigate the related risks through the mechanism of Master Services Agreement Committee with at least three disinterested trustees along with university designee who is not an “interested person” under GCU's Conflict of Interest Policy. The organizational structure and the effectiveness of managing potential conflicts of interest will continue to inform our credit opinion.

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.

Exhibit 5

Grand Canyon University

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	1,289	Aa
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	Ba	Ba
	Operating Environment	Ba	Ba
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	13%	A
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	407	A
	Total Cash and Investments to Operating Expenses	0.3	B
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investment to Total Adjusted Debt	0.3	B
	Annual Debt Service Coverage	2.9	A
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	Ba	Ba
	Scorecard-Indicated Outcome		Baa3
	Assigned Rating		Ba1

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

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