

ISSUER COMMENT

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Pomona College, CA

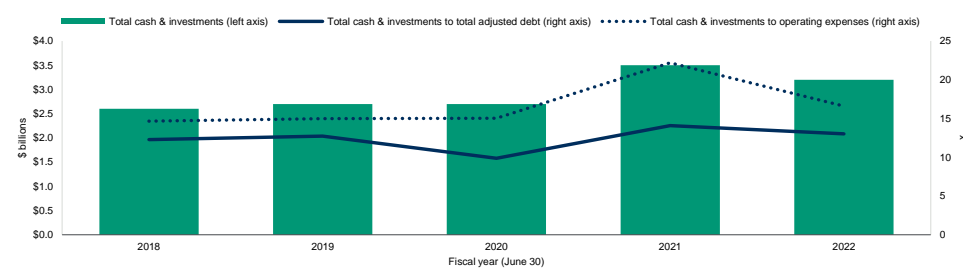
Substantial wealth and national reputation underscore exceptional credit quality

Credit overview

[Pomona College's](#) (Aaa stable) credit profile reflects the college's extraordinary wealth and liquidity relative to its debt and operating expenses which provides ample financial flexibility. Pomona's excellent strategic positioning is supported by its national reputation and exceptional student draw as a highly selective liberal arts college with favorable fundraising. Consistently strong EBIDA and budget discipline supports excellent debt service coverage and strategic investments in programming and capital. Credit challenges include Pomona's high reliance on its endowment to support its need-blind admissions policy and for broader operating support. A highly competitive student market prompts the need for continuous investment in facilities, financial aid and the overall student experience. Management displayed its ability and willingness to trim expenses during an uncertain revenue environment driven by the pandemic, contributing to Pomona's excellent financial policy and strategy.

Exhibit 1

Significant wealth translates into exceptional financial flexibility



Source: Moody's Investors Service

Pomona's national reputation will continue to drive strong student demand as it deploys its substantial wealth to attract a diverse and academically strong student body, regardless of ability to pay. The college is committed to need-blind admission and fully meeting the financial needs of admitted students, providing it a competitive advantage, but leading to a high 54% tuition discount rate in fiscal 2022 and limited growth in net tuition revenue. Enrollment uncertainty during the pandemic led to an outsized freshmen class in fall 2021, inflating enrollment to its current level of 1,777 FTE as of fall 2022. This was above Pomona's ideal student body size, and enrollment will be managed down to approximately 1,650 students over the next couple of years.

While some modest weakening of margins may occur in fiscal 2023 as inflation pressures persist, Pomona will still generate a healthy bottom line and strong debt service coverage. The budget remains carefully managed with various contingencies to ensure that enough flexibility exists to comfortably meet core budget needs and longer term strategic priorities. Inflation pressures will continue to exert budget pressure through fiscal 2024, as utilities, food costs and labor drive expenses upward. Partially mitigating these pressures was a rise in tuition charges in fiscal 2023 with another increase planned in fiscal 2024. Combined with an increasing endowment payout and steady philanthropic support, margins will continue to exhibit strength.

Ample cash and investments relative to debt and operations, as well as solid fundraising will continue to underpin credit quality. Following strong investment returns in fiscal 2021, a loss in fiscal 2022 drove a roughly 9% decline in fiscal 2022 cash and investments. Pomona's endowment spend policy employs a prudent 20-quarter average with caps on increases, limiting the budget to exposure in investment market volatility and aiding budget predictability. Fiscal 2022 cash and investments of \$3.2 billion includes assets related to Pomona's life income and annuities obligations, which stand at less than 5% of total wealth.

Leverage will remain moderate due to the college's strong financial reserves and healthy cash flow. Total cash and investments cover total adjusted debt an exceptional 13x in fiscal 2022. While financial leverage remains high with debt to operating revenue of 1.0x, debt affordability is strong with total debt to EBIDA of 2.8x in fiscal 2022. Pomona's largest identified capital need is an international center that will be equity and donor funded. Some modest bridge financing may be used in advance of pledge receipts. The project is still in its planning phase with the full scale and cost of the project to be determined. Management aims to identify between 35%-50% of philanthropic support for the project before putting shovels in the ground. Aside from this project, management reports limited deferred maintenance on campus, evident in a low age of plant.

Exhibit 2

POMONA COLLEGE, CA

	2018	2019	2020	2021	2022	Median: Aaa Rated Private Universities
Total FTE Enrollment	1,655	1,688	1,464	1,747	1,777	8,424
Operating Revenue (\$000)	206,280	203,711	209,433	182,031	250,044	1,523,242
Annual Change in Operating Revenue (%)	4.1	-1.2	2.8	-13.1	37.4	0.9
Total Cash & Investments (\$000)	2,583,324	2,662,110	2,689,192	3,480,162	3,158,795	16,509,095
Total Debt (\$000)	210,337	208,941	272,437	247,075	242,693	1,307,579
Total Cash & Investments to Total Adjusted Debt (x)	12.3	12.7	9.9	14.1	13.0	10.1
Total Cash & Investments to Operating Expenses (x)	14.7	15.0	15.0	22.2	16.6	12.3
Monthly Days Cash on Hand (x)	2,386	2,327	2,353	2,685	1,671	1,190
EBIDA Margin (%)	27.2	25.8	27.8	27.8	34.6	18.5
Total Debt to EBIDA (x)	3.7	4.0	4.7	4.9	2.8	5.3
Annual Debt Service Coverage (x)	4.7	4.5	5.0	4.8	7.9	3.8

Fiscal 2022

Source: Moody's Investors Service

Issuer profile

Pomona College is an elite liberal arts college with 1,777 full time equivalent students in Fall 2022 and approximately \$3.2 billion of total cash and investments in fiscal 2022. The college is located in southern California, outside of Los Angeles and is one of The Claremont Colleges, a consortium of five colleges, two graduate institutions, and a central coordinating entity that provides services to all members.

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