CREDIT OPINION
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Send Your Feedback

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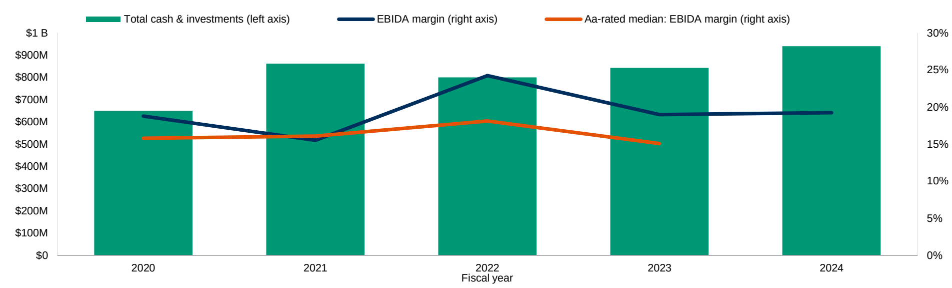
Reed College, OR

Update to credit analysis

Summary

Reed College's (Aa2 stable) excellent credit quality reflects its market position as a liberal arts college in Portland, Oregon, with an increasingly national brand. The college's wealth, at $940 million in fiscal 2024, provides strong coverage of debt and expenses. Annual liquidity of $455 million, or 1,457 annual days cash on hand, provides ample financial flexibility for programmatic and capital investments. The college's experienced and disciplined financial management team has an established track record of generating strong annual operating performance, with the fiscal 2020-24 average EBIDA margin at roughly 19%. However, fiscal 2025 operations may be softer due to lower than budgeted enrollment stemming from disruptions around FAFSA applications. Credit considerations also include its relatively small scale of operations and a highly competitive student market environment. The college's leverage profile remains moderate, but a long-dated bullet maturity introduces some maturity risk, though partly mitigated by able treasury management.

Exhibit 1
Strong wealth and EBIDA margins support excellent credit quality



Source: Moody's Ratings

Credit strengths

» Strong and growing cash and investments, with $940 million in fiscal 2024, up 45% for the fiscal 2020-24 period, and solid liquidity

» Wealth provides more than ample fiscal 2024 coverage to debt and expenses, at 7.5x and 7.8x, respectively

» Disciplined financial management team consistently generates annual surpluses

» Very good fundraising that contributed a five-year gift average of $13,245 per student

Credit challenges

» Reed is increasingly competing against a broader pool of universities, and with its unique academic curriculum, experiences a fairly low yield of accepted and matriculated students

- A high cost business model and relatively small scale reduce flexibility to quickly adjust operations
- Debt structure with bullet maturity requires consistent treasury management to maintain credit quality

Rating outlook

The stable outlook reflects our expectation that the college will continue to record strong wealth and liquidity, and maintain double-digit EBIDA margins.

Factors that could lead to an upgrade

- Increase wealth to expenses of 11x and to debt of 8.5x
- Significant improvement in philanthropy with three-year average gifts per student moving to over $30,000
- Material strengthening of student demand

Factors that could lead to a downgrade

- Below peer growth in cash and investments and sustained erosion of liquidity
- Inability to consistently generate double-digit EBIDA margins
- Additional debt issuance absent commensurate increase in wealth

Key indicators

Exhibit 2
Reed College, OR

	2020	2021	2022	2023	2024	Median: Aa Rated Private Universities
Total FTE Enrollment	1,355	1,532	1,506	1,422	1,332	3,193
Operating Revenue ($000)	114,746	111,088	130,000	129,272	134,956	316,485
Annual Change in Operating Revenue (%)	6.6	-3.2	17.0	-0.6	4.4	5.0
Total Cash & Investments ($000)	649,574	862,077	799,357	842,021	939,725	2,236,421
Total Adjusted Debt ($000)	98,995	97,400	125,000	125,000	125,000	450,948
Total Cash & Investments to Total Adjusted Debt (x)	6.6	8.9	6.4	6.7	7.5	4.7
Total Cash & Investments to Operating Expenses (x)	6.3	8.4	7.4	7.2	7.8	5.2
Monthly Days Cash on Hand (x)	819	1,059	820	746	847	450
EBIDA Margin (%)	18.8	15.5	24.2	19.0	19.2	15.1
Total Debt to EBIDA (x)	4.6	5.7	4.0	5.1	4.8	5.2
Annual Debt Service Coverage (x)	4.4	3.8	5.9	5.0	5.3	3.8

Fiscal year ending June 30
Source: Moody's Ratings

Profile

Reed College, also known as The Reed Institute, is a liberal arts college, located in Portland, Oregon, and founded in 1908. For fall 2024, Reed enrolled 1,322 full-time equivalent (FTE) students and in fiscal 2024 recorded $135 million in operating revenue.

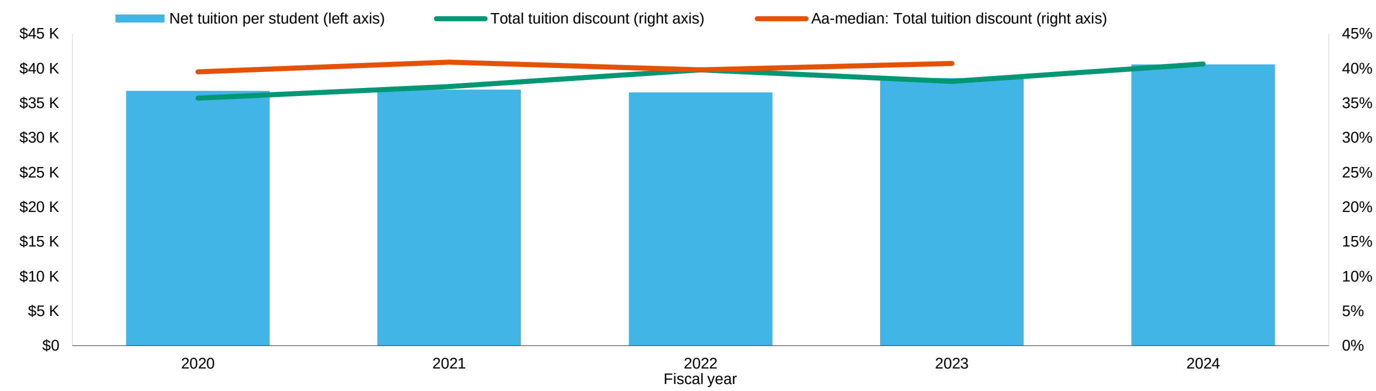
Detailed credit considerations

Market profile

Reed's increasingly national brand recognition as a prestigious West Coast liberal arts college helps maintain generally steady enrollment, while its expanded geographic reach means it competes with a broader array of institutions. While Reed's acceptance rate is competitive with the Aa-rated median, weaker matriculation rates that hover at about 14% are due in part to the college's absence of merit aid and unique academic programming. However, generally growing net tuition per student, outpacing the Aa-median, has mitigated demand measures and indicates ongoing pricing power. Tuition increased 3.5% for both fiscal 2024 and 2025. The college is reporting that the fiscal 2025 admissions disruptions caused greater allocations of financial aid than expected.

Exhibit 3

Generally rising growth in net tuition per student and stable tuition discounting



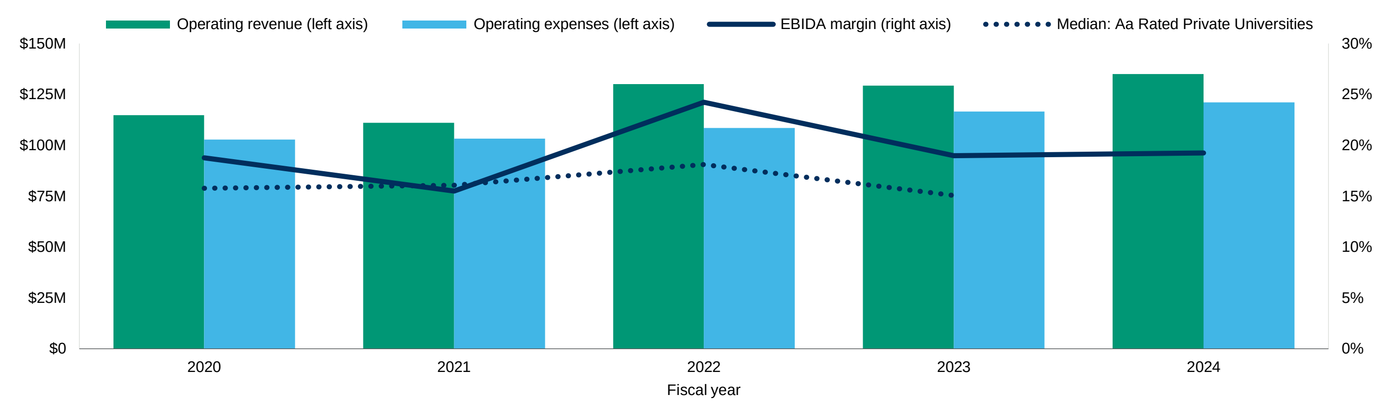
Source: Moody's Ratings

Operating performance

For fiscal 2025, we expect Reed's operating performance to remain generally stable, though slightly softer than prior years. Despite the enrollment disruptions and higher than budgeted financial aid, the management team is focused on balancing its 2025 budget. With EBIDA margins stronger than rated peers, at 19% for fiscal years 2023-24, and a sound wealth position, Reed is able to weather some variability in performance which is sometimes amplified by its smaller size.

Exhibit 4

EBIDA margins remain steady and generally stronger than rated peers



Source: Moody's Ratings

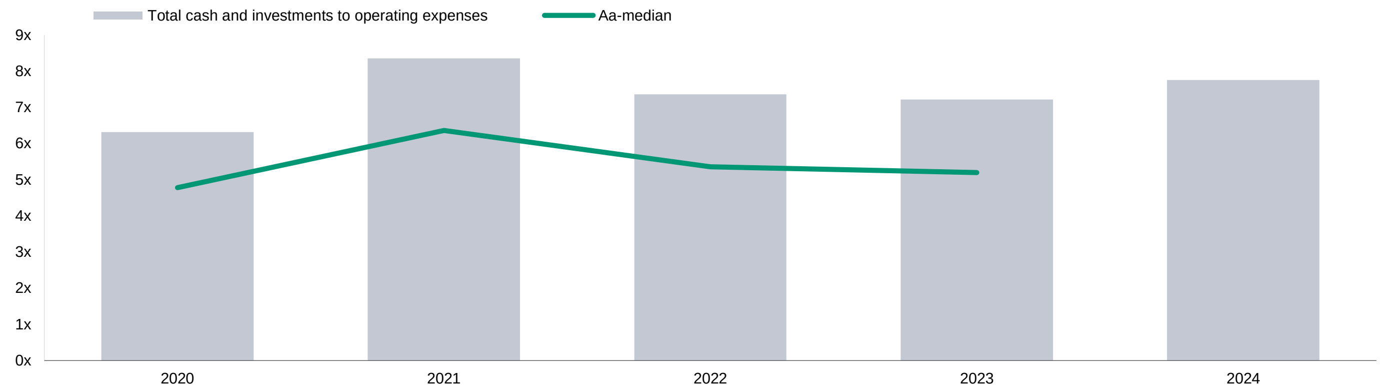
Reed will continue to be highly reliant on student charges and investment income. These operating risks will continue along with the sector challenges. Further, the college has a high cost business model - small classes and intensive faculty interaction - and modest $135 million scope of operations. Favorably, Reed has adeptly managed the impacts of rising inflation, particularly related to increased wages and salaries. Long-term operating flexibility will remain substantial given its strong wealth and liquidity.

Wealth and liquidity

The college's strong relative wealth compared to operations will continue to be the primary factor supporting credit quality. Total cash and investments of $940 million covered operating expenses by 7.8x in fiscal 2024, exceeding Aa-rated private university peers. Over the fiscal 2020-24 period, Reed's wealth rose a strong 45%, including its 12.2% return for fiscal 2024. Annual liquidity of $455 million, or 1,457 annual days cash on hand, provides ample financial flexibility for programmatic and capital investments. Increasing fundraising efforts will be additive to the endowment and support its four consecutive years of a 5% spend rate.

Exhibit 5

Reed's wealth to operating expenses exceeds rated peers



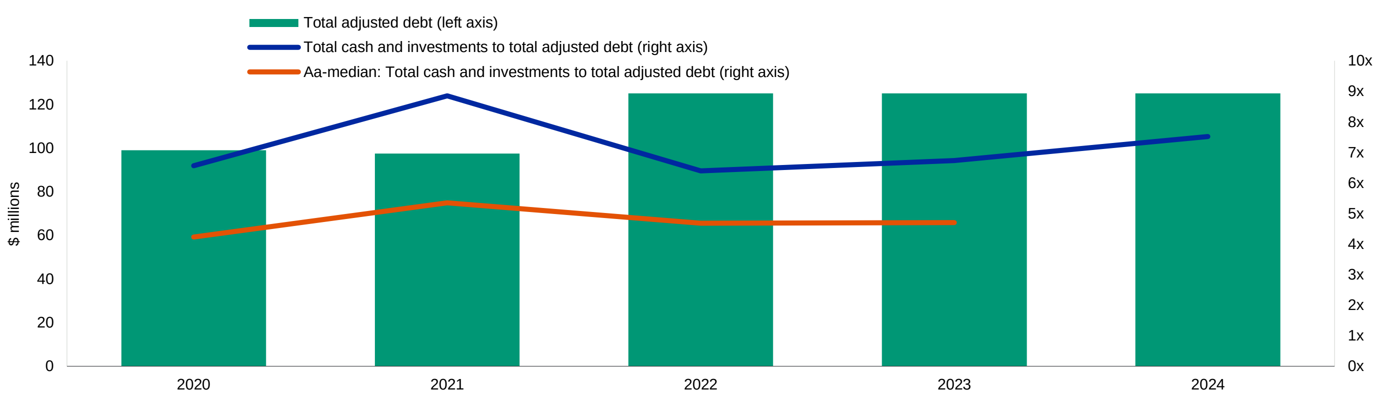
Source: Moody's Ratings

Leverage and coverage

Reed's leverage profile will remain manageable given its strong wealth, consistently strong operating performance, and sound treasury management. Total cash and investments to total adjusted debt of $125 million was 7.5x for fiscal 2024. The college has no immediate plans for additional debt, relying on internal capital reserves for near term projects and ongoing deferred maintenance given its 19 year age of plant. The college opened a new sports center in fall 2024, which is a replacement for one that was damaged by a storm in 2021.

Exhibit 6

Reed's wealth to debt is stronger than rated peers



Source: Moody's Ratings

Reed's only outstanding debt, the Taxable Series 2022A Bonds, included proceeds for capital projects, as well as a refunding and swap termination. The bonds have a single long-dated bullet maturity introduces some maturity risk, though the college has established a separate account that is projected to grow to exceed the bullet repayment due in 2052.

ESG considerations

Reed College, OR's ESG credit impact score is CIS-2

Exhibit 7
ESG credit impact score

CIS-2

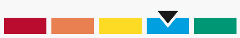
ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

Reed College's (**CIS-2**) indicates that ESG considerations have a neutral-to-low impact on the current rating. Sound financial management and considerable wealth help offset the impact of its ESG risks.

Exhibit 8
ESG issuer profile scores

ENVIRONMENTAL
E-2



SOCIAL
S-2

GOVERNANCE
G-2

Source: Moody's Ratings

Environmental

Environmental risks are **E-2** across all categories and in line with exposures of most of the higher education sector. Portland, the site of the main campus does have exposure to wildfire risks, including smoke from the fires that can negatively affect the region's air quality, but this should present manageable disruptions. Reed College continues to implement goals of its comprehensive sustainability plan and is committed to reducing its carbon footprint and working towards carbon neutrality.

Social

Reed's social issuer profile score (**S-2**) reflects its national reputation with favorable student demand contributing to excellent brand and strategic positioning. Consistent within the higher education sector, Reed has a mission aligned with positive social impact through its education and service mission. However, the relatively small operating scale and highly competitive student market pose challenges as Reed is competing against a broader pool of well-resourced colleges. Reed also faces changing consumer preferences and its yield on admitted students has softened. Like many sector peers, human capital risks are derived from the high faculty tenure exposure, which can present labor rigidity constraints.

Governance

Reed's governance issuer profile score (**G-2**) reflects its track record of favorable operating results and wealth growth, stewarded by a disciplined and seasoned leadership team. While the college operates under a high cost business model, which, combined with its small scale, limits its flexibility to adjust quickly to market changes, its conservative budgeting and good control over spending help offset these challenges. Like most of the sector, the large composition of the college's board of trustees including alumni and key donors introduces some board structure risks. Favorably, board members have good industry diversity and experience along with a demonstrated ability of effectively fulfilling its broad oversight responsibilities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The Higher Education rating methodology includes a scorecards 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, operating environment, and financial strategy on a qualitative basis, as described in the methodology.

Exhibit 9

Reed College, OR

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	135	A
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	Aa	Aa
	Operating Environment	A	A
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	19%	Aa
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	940	Aa
	Total Cash and Investments to Operating Expenses	7.8	Aaa
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	7.5	Aaa
	Annual Debt Service Coverage	5.3	Aa
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	Aa	Aa
	Scorecard-Indicated Outcome		Aa3
	Assigned Rating		Aa2

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 Ratings

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