MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Rollins College, FL bonds to A2; outlook stable

Global Credit Research - 05 Feb 2014

College has $132.6M rated debt

New York, February 05, 2014 -- Moody's Investors Service has downgraded its rating on Rollins College's revenue bonds to A2 from A1. The outlook is stable. The downgrade reflects the recent trend of stagnant net tuition revenue, weakened operating performance over the past three years with high operating leverage, and reduced flexible reserves.

SUMMARY RATING RATIONALE

The downgrade reflects Rollins' recent trend of declining cash flow performance and overall stagnant net tuition revenue with FY 2013 net tuition revenue below the results for FY 2010. The downgrade also incorporates the college's diminished flexible reserves. In FY 2013, monthly liquidity moved to $60 million from the prior year's $96 million as the college funded a portion of various capital projects including a new inn.

The A2 rating reflects Rollins College's generally sound student market position, healthy $352 million of total cash and investments, attractive campus with no major capital needs and expectations of ongoing philanthropic support that has been a source of resource growth over time. Credit challenges include strong competition for students, material enrollment declines in the business school, high operating leverage and trend of thinning operating performance. The stable outlook reflects expectations that management has taken steps to reduce operating expenses and more closely manage cash flow performance in the coming years. The stable outlook also reflects the potential for revenue growth supported by the student market, enhanced marketing initiatives, donor support and commercial real estate net revenue.

CHALLENGES

*Rollins recent trend of thinning operating cash flow performance continued in FY 2013 as operating revenue fell 2.2% and expenses increased 2.6%. The resulting cash flow margin of 8.7% is much lower than earlier years and supported debt service coverage by a thin 1.05 times.

*Key competitors include both wealthier private institutions and lower cost public universities effectively constraining pricing power. Exposure to demand for graduate business school degrees has led to recent declines in net tuition revenue.

*Rollins capital program has led to both increased leverage and a reduction of flexible reserves. Capital purchases of $56.5 million in fiscal 2013 included the use of $20 million of flexible reserves that were loaned to the inn project as well as $5 million that served as bridge funding for contributions receivable for the project.

*Rollins has high operating leverage with debt to operating revenues of 1.25 times and maximum annual debt service representing an elevated 8.4% of operating expenses.

*The college remains relatively dependent on student charges at 72% of fiscal 2013 revenue, highlighting the importance of achieving enrollment targets and readjusting expenses to evolving market demand to maintain equilibrium.

*The college's operating performance has increasing exposure to the more volatile hospitality industry and other commercial real estate interests in Winter Park. Projections for the inn show operating revenue in the $8 million range in 2014 and sufficient cash flow to begin repayment of the internal loan and generate endowed funds for scholarships.

STRENGTHS

*Rollins has an established market position as a regional private liberal arts college in Winter Park, Florida with $106 million in operating revenue and an attractive campus that has seen increased enrollment in core residential

undergraduate program.

*With total cash and investments of $352 million, the college maintains good financial flexibility. Total financial resources-per-student of just under $130,000 in Fiscal 2013 are much higher than the A-rated median of approximately $60,000.

*Rollins has a history of attracting donor support with average gift revenue of $17 million per year (fiscal year 2011 through 2013) and expectations of potential increases as the college embarks on a comprehensive campaign.

*The college has a conservative, all fixed rate debt structure with ongoing amortization of principal. Rollins has no identified major capital needs and no future borrowing plans that would increase debt.

*The college has a successful commercial real estate venture adjoining the campus operating with sustained and favorable occupancy. Estimates of the current market value are well above the approximately $15 million book value reflected in the college's financial statements.

Outlook

The stable outlook reflect management's plan to improve operating performance in FY 2014 and 2015 through revenue growth and careful expense management. The stable outlook also incorporates expectations that fundraising will continue to provide a source of resource growth and that the commercial real estate ventures including the inn will generate sufficient cash flow to support debt retirement.

WHAT COULD MAKE THE RATING GO UP

An upgrade could be supported by evidence of sustained improvement in operating cash flow, net tuition revenue growth and careful expense management. An upgrade could also be supported by ongoing positive net revenue performance of the commercial property including the inn including timely repayment of the internal loan.

WHAT COULD MAKE THE RATING GO DOWN

The long term rating could move down through a continuation of thin operating cash flow performance, a reduction in cash and investments, additional borrowing or a inability to achieve net tuition revenue growth.

METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Dennis M. Gephardt
Vice President - Senior Analyst

Public Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Susan I Fitzgerald
Senior Vice President
Public Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

MOODY'S
INVESTORS SERVICE