Rating Report
McMaster University

DBRS Morningstar
January 25, 2021

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Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	AA	Confirmed	Stable
Senior Unsecured Debt	AA	Confirmed	Stable

Rating Update

DBRS Limited (DBRS Morningstar) confirmed McMaster University's (McMaster or the University) Issuer Rating and Senior Unsecured Debt rating at AA. All trends remain Stable. The ratings are supported by McMaster's strong academic profile, steady enrolment growth, track record of strong financial management, and considerable financial flexibility, which have allowed the University to navigate through the Coronavirus Disease (COVID-19) pandemic with limited effect on its credit profile. However, the operating environment is likely to remain challenging, as provincial policy uncertainty and ongoing capital investment could pressure financial risk metrics over the medium-term.

In 2019–20, the University reported a consolidated surplus of $92.1 million, or 7.9% of revenues. This marked a decline from $157.0 million, or 13.2% of revenues in the prior year, reflecting weaker investment returns, ongoing cost pressures, and pandemic impacts.

The 2020–21 budget was prepared in spring 2020 amidst considerable uncertainty regarding the coronavirus pandemic and the impact it would have on university enrolment, ancillary operations and unforeseen costs. As a result, the consolidated budget projected a deficit of $13.0 million in 2020–21, followed by surpluses of $49.9 million and $51.6 million in the following two years.

Based on McMaster's November 2020 interim financial update, a consolidated surplus of $7.2 million is now anticipated in 2020–21. This updated projection reflects a $57.3 improvement in tuition revenues due to higher-than-planned enrolment (both domestic and international), offset by lower ancillary and other revenues related to the ongoing campus closure. Additionally, expenses are projected to be materially lower than budget as a result of lower pandemic-related costs and deferred capital projects. Over the medium term, surpluses of $74.0 million to $98.5 million are anticipated between 2021–22 and 2023–24.

The University's debt totalled $254.0 million as at April 30, 2020. In the absence of any new debt issuance, DBRS Morningstar expects a decline in the debt per full-time equivalent (FTE) ratio to $7,477 in 2020–21, gradually falling toward $7,000 by 2022–23. The University indicated in its 2020 Debt Strategy that additional debt could be required to fund potential capital initiatives within the next 12 months. Incorporated within the existing ratings is DBRS Morningstar's assumption that debt-per-FTE remains below $12,000.

An increase in the debt-per-FTE ratio to over $12,000 would result in downward pressure on the rating. A negative rating action could also arise from a sustained deterioration in operating performance. A positive rating action, though unlikely, could result from an upgrade of the provincial funder rating and an improvement in the government funding and tuition frameworks.

Financial Information

	For the year ended April 30				
	2020	**2019**	**2018**	**2017**	**2016**
Consolidated operating result (adjusted; CAD millions)	92.1	157.0	105.7	112.1	29.1
Surplus-to-revenue (five-year rolling average; %)	8.8	8.8	8.0	7.4	5.5
Debt per FTE (CAD)	7,902	8,217	8,580	8,785	9,200
Interest coverage ratio (times)	9.5	14.1	9.7	11.2	6.5
Expendable resources to debt (%)	236	239	219	207	174

Issuer Description

McMaster was founded in 1887 through the merger of the Toronto Baptist College and Woodstock College. The University is a comprehensive, research-intensive institution located in Hamilton, Ontario, and offers a broad range of undergraduate, graduate, and continuing education programs to over 32,000 FTE students.

Rating Considerations

Strengths

1. Academic profile

The University benefits from a strong academic profile; it frequently places high in international rankings and often appears among the top 100 universities globally. McMaster offers a diverse range of programs in all high-demand academic areas (except law) and is one of the most research-intensive universities in the country.

2. Provincial support

Universities are a critical component of the public sector. Access to high-quality post-secondary education remains a priority for the Province of Ontario (the Province or Ontario; rated AA (low) with a Stable trend by DBRS Morningstar). As such, universities in Ontario and across Canada benefit from stable and consistent revenue sources. Government grants and tuition fees accounted for about 70% of revenue for McMaster—demonstrating a somewhat lower reliance on government grants and tuition than other DBRS Morningstar-rated universities.

3. Disciplined financial management

McMaster has an established history of proactive and effective financial management. It has been responsive to operating challenges that have emerged and has implemented systems and processes to improve resource allocation and cost control. This has been evident throughout the current pandemic as McMaster has taken steps to mitigate the deterioration in University finances.

4. Considerable financial resources and flexibility

The University has a strong balance sheet, which is the result of prudent management practices, a series of strong operating results, and success in fundraising. DBRS Morningstar estimates that McMaster's expendable resources were $598.3 million at April 30, 2020, which equates to 235.5% of debt—one of the highest levels among DBRS Morningstar-rated universities.

Challenges

1. Limited control of revenue

Canadian universities have limited control over their main revenue sources—tuition fees and government grants. In recent years, the Province implemented changes to the tuition fee framework for domestic students in regulated programs, limiting domestic tuition growth and freezing operating grants.

2. Cost pressures

Underlying cost pressures are somewhat detached from the University's revenue drivers. Canadian universities' expense bases are largely fixed and growing in the form of tenured faculty, unionized support staff, externally mandated student aid requirements, and large infrastructure footprints. In recent years, inherent cost pressures such as negotiated wage settlements, competitive salaries for top researchers, and increasing benefits costs have outpaced provincially controlled revenue growth. The fixed nature of the expenses tends to slow the pace at which universities can respond to a significant exogenous shock to revenue.

3. Significant deferred maintenance

The University has considerable deferred maintenance needs, currently estimated at $713.9 million. This marks a significant increase from prior years as a result of changes to the deferred maintenance measurement methodology adopted across the Ontario higher education sector in both 2019 and 2020. As a result, the facilities condition index (FCI) has increased to 27.1% in 2019–20 from 14.3% in 2017–18 using the old methodology. The University continues to allocate roughly $14.0 million in its budget projections. McMaster is currently reviewing the adequacy of its annual deferred maintenance budget allocation.

Operating Performance

2019–20 Results

In 2019–20, the University reported a consolidated surplus of $92.1 million, or 7.9% of revenues. This marked a decline from $157.0, or 13.2% of revenues in the prior year, reflecting weaker investment returns, ongoing cost pressures, and impacts of the pandemic.

Total revenues declined by 2.7% year over year (YOY) in 2019–20 mainly as a result of lower investment returns. Investment income declined by 62.7%, or $44.4 million, due to market volatility brought on by the coronavirus. Higher enrolment (+3.7% to 32,148 FTEs) along with fee increases for unregulated programs more than offset the 10% domestic tuition cut, resulting in tuition fee growth of 5.6%. Government operating grants were largely stable (+0.8%) and in line with the provincial corridor funding model that emphasizes stable domestic enrolment. Research grants and contracts revenue (-2.1%) declined as a result of pandemic-related delays and closures. Similarly, ancillary operations (-2.9%) reported lower revenues as a result of closures and refunds related to the pandemic. Other revenues (-5.0%) also contributed to the YOY revenue decline, while increased donations and grants (+2.8%) and amortization of deferred capital (+5.0%) provided a partial offset.

Total expenses grew by 3.2% YOY in 2019–20. Salaries and benefits remain the primary cost driver for most DBRS Morningstar-rated universities and account for more than 60% of total spending at McMaster. Salaries, wages, and related benefits increased by 5.4%, owing to a growing faculty and staff complement, negotiated wage increases, and higher pension expenses. Other supplies and expenses declined by 2.3% YOY, while amortization costs (+7.5%) and interest costs were relatively unchanged (-0.3%).

The University's net assets decreased (-2.9%) to $1.2 billion in 2019–20. Market volatility affected internal and external endowments as well as pension plan returns. These negative effects were only partially offset by positive operating results and increased equity in capital assets related to ongoing capital priorities.

Consolidated results for 2019–20 outperformed budget projections. Revenues were 0.5% lower than estimates, primarily as a result of lower-than-anticipated investment income, partly offset by higher tuition and other revenues. Expenses were lower-than-planned (-3.4%) because of unfilled staff positions and lower supplies and services costs related to the campus closure.

2020–21 Budget

The University prepares a consolidated budget that includes the operating fund (66% of consolidated budget), capital fund, research fund, trusts and endowment fund, and the specifically-funded activities. Its Board of Directors requires the University to present a balanced budget annually. Like most universities in Ontario, McMaster uses an activity-based budget model. There were no significant changes to budgetary practices over the last year.

The 2020–21 budget was prepared in spring 2020 amid considerable uncertainty about the coronavirus pandemic and the impact it would have on university enrolment, ancillary operations, and unforeseen costs. As a result, the consolidated budget projected a deficit of $13.0 million in 2020–21, followed by surpluses of $49.9 million and $51.6 million in the following two years.

The 2020–21 budget projected an increase in revenues (+10.1%), supported by an improvement in investment returns and other revenues while operating grants remained stable. The University conservatively assumed that tuition revenues would fall (-0.9%) based on 20% decline in international enrolment. Higher international tuition fees and resilient domestic enrolment were expected to provide an offset.

McMaster projects consolidated spending to rise by 6.4% in 2020–21, driven by increased costs for salaries and benefits and supplies and services. The addition of new faculty, negotiated salary increases, and increased employee benefits costs will result in higher compensation costs for the University. Supplies and services costs are projected to rise by 14.0%, in part reflecting pandemic-related expenses while other areas will see more modest growth.

On a narrower operating fund basis, the University budgeted for a deficit position in the operating fund of $53.9 million in 2020–21, followed by deficits of $16.6 million and $15.6 million in the following two years.

Operating Outlook

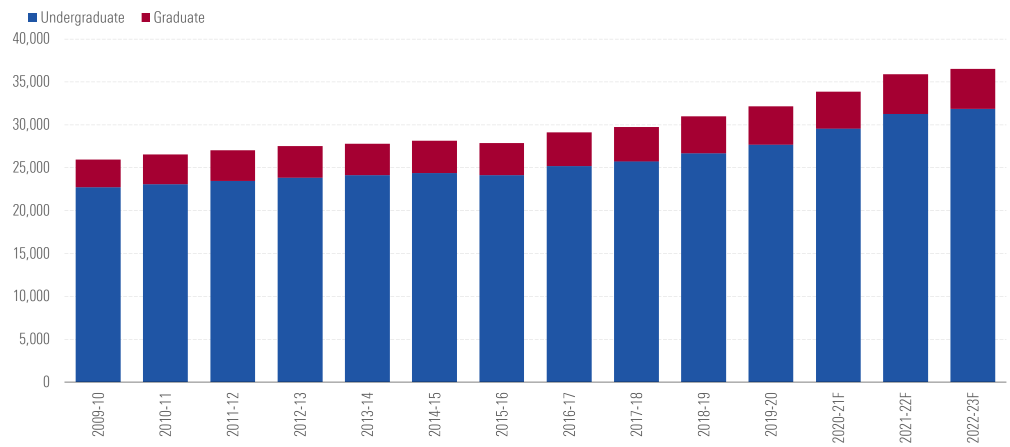
Based on McMaster's November 2020 interim financial update, a consolidated surplus of $7.2 million is now anticipated in 2020–21. This change reflects a $57.3 improvement in tuition revenues because of higher-than-planned enrolment, offset by lower ancillary and other revenues related to the ongoing campus closure. Additionally, supplies and service expenses are projected to be materially lower than budget as most ancillary operations are not open and some capital projects have been deferred. Over the medium term, surpluses of $74.0 million to $98.5 million are anticipated between 2021–22 and 2023–24.

The University remains focused on the key priorities outlined in its guiding strategy, “Forward with Integrity,” and reaffirmed in its Strategic Mandate Agreement (SMA), which is to strengthen its research profile, improve the student experience, and enhance its relationships with the communities it serves. A new SMA (SMA3) was recently signed with the Province and covers the 2020–21 to 2024–25 fiscal years. SMA3 will include a set of 10 performance metrics with funding consequences for not meeting the negotiated performance targets. However, the Province announced that performance-based funding has been delayed by two years until 2022–23.

Tuition policy presents an element of uncertainty. Following the 10% tuition reduction for domestic regulated programs announced for 2019–20 and the subsequent freeze in 2020–21, the Province has yet to provide any tuition guidance for 2021–22. In the absence of new guidance, McMaster has assumed an ongoing tuition freeze in their multi-year projections.

The University continues to plan for modest enrolment growth through the medium term, although the pace is expected to moderate. As travel restrictions are gradually relaxed, international enrolment is expected to be a key contributor to growth, with McMaster aiming to further diversify its international enrolment base to reduce geopolitical risks.

Exhibit 1 Total Enrolment (FTEs)



Source: DBRS Morningstar.

Capital

McMaster prepares a rolling comprehensive Five-Year Capital Plan that guides capital development based on the University's strategic priorities. The master plan includes a Facilities Capital Plan, an Energy Management Plan, and an Asset Management Plan, all of which are updated annually. McMaster last updated its capital plan in March 2020, although adjustments have been made throughout the year to respond to the coronavirus pandemic.

McMaster invested roughly $127.9 million in 2019–20—consistent with its five-year average—as the University continued to modernize facilities, address deferred costs, and increase capacity. Like most universities, many of the projects are relatively modest in scope and relate to the renewal or upgrading of facilities, acquisition of IT resources and other equipment, energy conservation, and deferred maintenance.

The University achieved substantial completion on the Peter George Centre for Living and Learning, which includes a 518-bed residence, classrooms and learning facilities, and space for ancillary operations and administrative functions.

Some of the major projects currently underway in 2020–21 include:

- DeGroote School of Business Expansion ($79.9 million): The facility will provide additional academic/administrative space and add a new nine-storey facility designed by Sweeny & Co Architects. Included in this expansion is the McLean Centre for Collaborative Discovery ($50.0 million): The renovation project is to be funded primarily by the McLean family combined with donations and the University's own reserves.
- David Braley Athletic Centre Expansion (Student Activity and Fitness Expansion): The expansion includes fitness studios, study space, and other recreation facilities funded through the student union with some contribution from the University ($10.0 million).

In addition, the University is working to further expand its residence offerings because it is one of only two Ontario universities that cannot guarantee a residence space to all first-year students as a result of lack of space. These projects are focused on the use of alternative ownership or financing structures. As is becoming increasingly common, Canadian universities are seeking to use their balance sheet to develop facilities that are core to their academic missions (learning, research, etc.) while using other structures that have less of an impact on the balance sheet for ancillary facilities. These projects include the following:

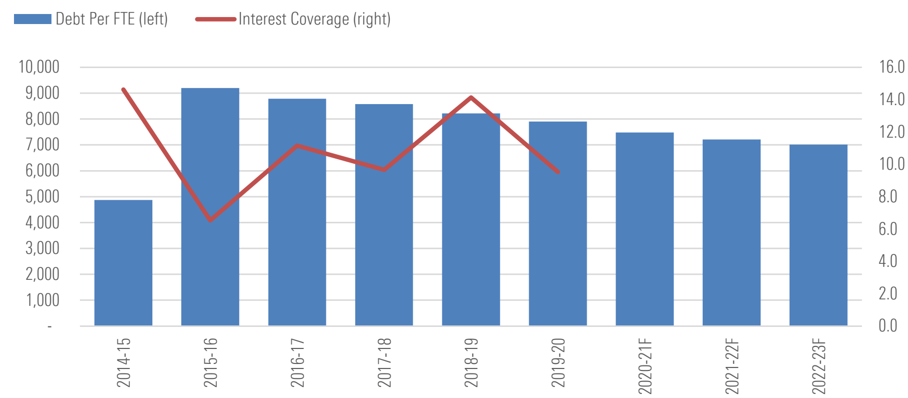
- Graduate residence and parking garage (downtown Hamilton): The University is developing the project in collaboration with a third-party partner for the design, build, finance, and management of an off-campus graduate residence (630 beds) and 265 parking spaces expected to be completed by May 2023. The graduate residence will be structured as a limited partnership on land that McMaster has leased for 99 years (effective October 1, 2019).
- Main Street West residence: Functioning as an extension to the main campus, this project will add 1,373 beds. Though financed through a limited partnership with a private developer, the residence will be managed, operated, and used by the University in accordance with its priorities. The project is expected to be completed in the summer of 2023.

The University has a number of other projects under consideration for the medium and longer term. These include the Bates Residence retrofit ($44 million) and the John Hodgins Engineering Building - The PIVOT ($50 million)—both of which are partially funded—along with renovations to the Life Sciences Building ($65 million) and an Integrated Research Centre in downtown Hamilton ($100 million). Although they are yet to be approved, these projects are expected to be funded through a combination of internal financing and fundraising.

McMaster's deferred maintenance requirements were estimated at $713.9 million in 2019–20, up from $429.2 million the previous year, albeit having been measured on a somewhat different basis this year. The University continues to focus on critical priorities and expects to maintain annual maintenance spending of close to $14.0 million from various sources, including the University's own reserves and provincial funding. As a result of the new measurement methodology, the FCI has risen to 27.1% in 2019–20, from 14.3% in 2017–18.

Debt and Liquidity

Exhibit 2 Debt and Interest Coverage



Source: DBRS Morningstar.

McMaster's debt burden continues to decline moderately and is considered manageable for the assigned ratings. As at April 30, 2020, McMaster's long-term debt totalled $254.0 million, down 0.3% from the previous year. The University's debt is composed of long-dated debentures due in 2052 ($120 million) and 2065 ($120 million) and a small amount of amortizing bank debt ($14.0 million). Moderate enrolment growth, accompanied by a gradually amortizing bank term loan, led to a modest decline in the debt-per-FTE ratio to $7,902 (from $8,217 in 2018–19). Interest coverage declined, but remained very strong at 9.5 times.

The University has established voluntary sinking funds for the debentures. At April 30, 2020, the sinking funds totalled $34.0 million. With ongoing contributions and investment returns, the funds are expected to be sufficient to retire the debentures in 2052 and 2065.

DBRS Morningstar estimates universities' expendable resources as a subset of net assets, which includes unrestricted net assets, internally restricted endowments, and some of the internally restricted net assets. For 2019–20, DBRS Morningstar estimated that McMaster's expendable resources totalled $598.3 million, equivalent to 235.5% of long-term debt. This places McMaster among the strongest of DBRS Morningstar-rated universities and reflects its considerable balance sheet flexibility.

McMaster's internal and external endowment funds were impacted by market volatility late in the fiscal year 2019–20. Total endowments declined by 5.2%, or $33.9 million in 2019–20. On a per-FTE basis, this equates to $19,203, which is the third-highest among DBRS Morningstar-rated institutions.

Employee Future Benefits

McMaster has significant employee future benefit liabilities associated with its three defined benefit pension plans and nonpension post-retirement benefits. Only one of the defined benefit pension plans remains open to new members. The University also has a group RRSP for a growing number of employees.

In recent years, the University has taken several measures to manage its significant pension liability, including revised eligibility rules for certain groups, increased employee contributions, and the introduction of a group RRSP plan for new employees in some groups.

The University filed an early valuation on July 1, 2018, for the salaried plans, which transitioned McMaster to new provincial pension funding requirements that shorten the going-concern deficit amortization period to 10 years (from 15 years), mandate the implementation of a 10% reserve factor (PfAD) to accrued plan liabilities and current service costs, and impose higher premiums for the Pension Benefits Guarantee Fund monthly guarantee.

Under the new regulation, one of the University's salaried plans was initially categorized as a closed plan, which requires higher contributions than open plans to fund the PfAD. As a result, the overall going surplus deficit for the salaried plans as at the valuation date of July 1, 2018, stood at $143.4 million relative to a much smaller deficit of $30.8 million as of July 1, 2017. After further consultations, the Province and the University have concluded that it is more appropriate to treat McMaster's plan as an open plan. As a result, a substantial portion of the negative remeasurement adjustment in the University's financial statements will be reversed after the next valuation (July 1, 2021). The solvency deficit was reported at $197.2 million as at July 1, 2018.

For the hourly plans, the University filed a valuation as of July 1, 2019, revealing a solvency ratio below the 85% minimum threshold. McMaster made a one-time contribution of $4.7 million to bring the plan to 85% funded, and filed a subsequent valuation as of January 1, 2020. The 2020 valuation reported reported a going-concern surplus of $2.7 million and a solvency deficit of $8.1 million.

The Province's new pension funding regime also eliminates solvency funding requirements for those plans that have a funded ratio of at least 85%. A solvency ratio of 91% for McMaster's salaried pension plans allows the University to avoid making special payments until the next valuation date (July 1, 2021).

Like other Canadian universities, McMaster is an enduring institution, which makes the sudden wind-up of a pension plan unlikely. DBRS Morningstar places less emphasis on the solvency valuation, though a large solvency deficit does place pressure on the credit profile because of provincial regulations that require universities to make special payments to liquidate the going-concern and solvency deficits.

Nonpension post-employment benefit liabilities totalled $277.2 million at April 30, 2020, up 0.9% from the previous year. These mainly comprise health, dental, and life insurance benefits to retirees. Although not mandated, the University continues to set aside funds in an internally restricted reserve, which totalled $116.2 million as at April 30, 2020.

Debt Outlook

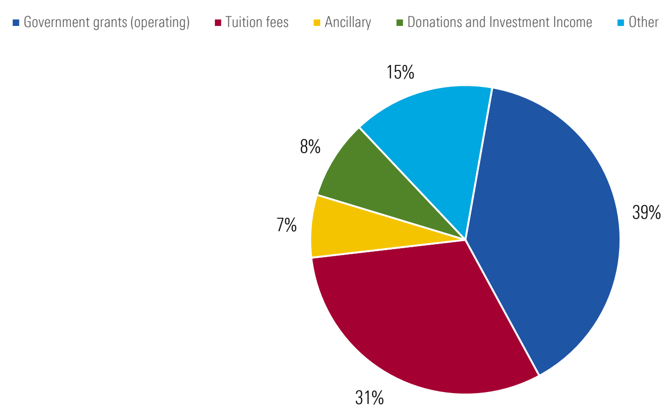
In the absence of any new debt issuance, DBRS Morningstar expects a decline in the debt per FTE ratio to $7,477 in 2020–21, and gradually falling toward $7,000 by 2022–23. The University indicated in its 2020 Debt Strategy that additional debt could be required to fund potential capital initiatives within the next 12 months. Incorporated within the existing ratings is DBRS Morningstar's assumption that debt-per-FTE remains below $12,000. Over the medium term, an increase in debt per FTE beyond $12,000 would result in a downward pressure on the rating.

University Funding in Ontario

Canadian universities in the Province generally have three key sources of revenue for their core teaching and research activities: (1) government grants, (2) student fees, and (3) donations and investment income. For McMaster, these accounted for approximately 79% of total revenue in 2019–20.

Provincial government funding remains one of the primary sources of revenue for universities across the country, although its relative importance remains under pressure in most provinces because of strained finances and competing priorities. Over time, this has led to a gradual shift in the relative shares of revenue provided by operating grants, which have declined, and tuition fees, which have increased.

Exhibit 3 Revenue Breakdown (2019–20)



Sources: McMaster and DBRS Morningstar.

Government Funding (Provincial and Federal; 39%)

Government funding includes operating grants, research grants, and contracts as well as capital grants. Operating grants are the most important and stable revenue source.

In 2017–18, the previous provincial government introduced a new funding model for Ontario universities in which a large share of funding was enrolment based, but the model reduced the financial incentive to increase domestic undergraduate enrolment and provided universities facing enrolment declines with downside protection. Under this model, Ontario universities expected funding to be relatively stable over a three-year period (from 2017 to 2020); however, the direction of fiscal policy under the current government is one of constraint.

The Province and universities have recently signed new Strategic Mandate Agreements that establish enrolment corridors and funding targets for the 2020–21 to 2024–25 fiscal years. SMA3 will include a set of 10 performance metrics, with funding consequences for not meeting the negotiated performance targets. However, the Province announced that performance-based funding has been delayed by two years until 2022-23.

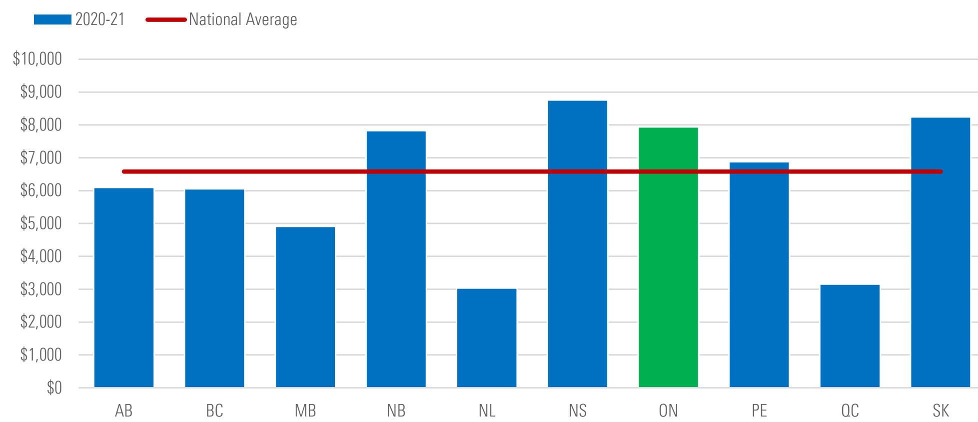
Research and capital grants are another important source of funding. The federal government typically provides 65% to 75% of all public research funding whereas the Province provides the bulk of capital funding. In 2019–20, the federal and provincial government provided additional funding for financial assistance to students and universities to offset pandemic-related costs.

Student Fees (31%)

On January 17, 2019, the Province announced a revised tuition fee framework for regulated domestic programs at Ontario universities and colleges. The framework required Ontario universities to reduce tuition fees for domestic funding (eligible programs by 10% in 2019–20) and to maintain domestic-funding-eligible program tuition fees at this level for the 2020–21 academic year. The University estimated a revenue impact of approximately $22.3 million in 2019–20.

International student fees are not regulated by the Province and are generally set to recover the full costs of international student enrolment.

Exhibit 4 Average Canadian Undergraduate Tuition Fees



Source: Statistics Canada.

Donations and Investment Income (8%)

Unrestricted donations and investment income, recognized on the statement of operations, typically represent about 10% of the University's revenue. Endowed contributions and investment income earned by the restricted endowments are recognized as changes in net assets and are not captured on the statement of operations until they are spent, at which point they are recorded as revenue.

With an extensive alumni, friends, and current donor base that includes many professionals, McMaster has seen consistent success in its fundraising efforts over the past several years. The University realized total fundraising of $183.3 million in calendar year 2019. The University also launched a multiyear research-oriented revenue-generating initiative, the Brighter World Research Initiative, that aims to build and capitalize on McMaster's position as Canada's most research-intensive university.

Statement of Financial Position (Adjusted)

(CAD thousands)	As at April 30				
Assets	**2020**	**2019**	**2018**	**2017**	**2016**
Cash and short-term investments	200,630	225,846	208,242	161,823	143,723
Receivables	151,656	138,942	136,383	135,588	135,022
Inventories and prepaid expenses	32,533	19,352	15,333	15,416	13,512
Long-term investments	1,313,986	1,329,541	1,256,897	1,240,598	1,094,130
Other investments and intangible assets	30,012	24,111	23,940	21,158	24,938
Capital assets	1,208,455	1,158,793	1,083,552	1,009,956	967,709
Total Assets	**2,937,272**	**2,896,585**	**2,724,347**	**2,584,539**	**2,379,034**
Liabilities and Net Assets					
Liabilities and Deferred Contributions					
Payables and other current liabilities	172,250	181,257	165,918	149,156	132,713
Employee future benefits	448,446	357,290	228,579	223,805	377,255
Deferred contributions - endowment	114,511	106,505	98,265	94,373	90,606
Other deferred contributions	256,589	256,663	260,926	263,662	263,317
Deferred capital contributions	491,662	505,591	511,302	490,828	462,144
Long-term debt	254,023	254,688	255,312	255,898	256,520
Decommissioning obligation	14,383	13,718	13,122	12,606	12,029
Total liabilities	**1,751,864**	**1,675,712**	**1,533,424**	**1,490,328**	**1,594,584**
Net Assets					
Unrestricted	–	10,755	9,781	7,846	10,081
Internally-restricted	97,679	159,426	234,151	211,957	(16,627)
Equity in capital assets	470,378	399,463	317,879	264,108	249,943
Endowment - internally restricted	141,333	150,410	145,777	143,422	127,872
Endowment - externally restricted	476,018	500,819	483,335	466,878	413,181
Net Assets	**1,185,408**	**1,220,873**	**1,190,923**	**1,094,211**	**784,450**
Total Liabilities and Net Assets	**2,937,272**	**2,896,585**	**2,724,347**	**2,584,539**	**2,379,034**
Contingencies and Commitments					
Capital commitments	294,400	276,300	204,500	167,900	223,800
Legal claims	–	–	–	–	–
Total	**294,400**	**276,300**	**204,500**	**167,900**	**223,800**

Statement of Operations (Adjusted)

(CAD thousands)	For the year ended April 30				
	2020	**2019**	**2018**	**2017**	**2016**
Total revenue	1,160,970	1,193,010	1,102,178	1,075,998	954,409
Total expense	1,068,900	1,036,018	996,491	963,916	925,313
Consolidated operating result	**92,070**	**156,992**	**105,687**	**112,082**	**29,096**
Revenue					
Tuition fees	360,665	341,629	305,171	274,788	246,275
Government operating grants	275,906	273,587	273,493	270,333	264,645
Research grants and contracts	189,283	193,412	183,768	181,730	172,432
Ancillary operations	75,959	78,202	77,112	74,273	70,307
Investment income	26,392	70,820	52,275	98,432	12,855
Donations and other grants	69,809	67,906	47,714	29,819	44,193
Amortization of deferred capital contributions	40,773	38,835	40,112	40,553	39,340
Other revenue	122,183	128,619	122,533	106,070	104,362
Total Revenue	**1,160,970**	**1,193,010**	**1,102,178**	**1,075,998**	**954,409**
Expense					
Salaries and benefits	676,506	641,842	619,723	602,005	566,052
Other supplies and expenses	300,877	308,107	291,433	193,684	183,754
Amortization	78,260	72,769	71,995	70,262	86,004
Interest	13,257	13,300	13,340	13,377	10,805
Total Expense	**1,068,900**	**1,036,018**	**996,491**	**963,916**	**925,313**
Consolidated operating result	**92,070**	**156,992**	**105,687**	**112,082**	**29,096**
Gross Capital Expenditures	**127,922**	**148,010**	**145,591**	**113,487**	**94,397**

Calculation of Free Cash Flow (Adjusted)

(CAD thousands)	As at April 30				
	2020	**2019**	**2018**	**2017**	**2016**
Operating balance before fund contributions	92,070	156,992	105,687	112,082	29,096
Amortization	78,260	72,769	71,995	70,262	86,004
Other noncash adjustments	(57,234)	(55,027)	(62,234)	(46,509)	(55,257)
Cash flow from operations	**113,096**	**174,734**	**115,448**	**135,835**	**59,843**
Change in working capital	(14,133)	13,062	16,951	17,864	7,699
Operating cash flow after working capital	**98,963**	**187,796**	**132,399**	**153,699**	**67,542**
Net capital expenditures [1]	(101,078)	(114,886)	(85,005)	(42,472)	(48,691)
Free cash flow	**(2,115)**	**72,910**	**47,394**	**111,227**	**18,851**

1 Gross capital expenditures less contributions restricted for capital purposes.

Summary Statistics (Adjusted)

	For the year ended April 30				
	2020	2019	2018	2017	2016
Total Enrolment (FTE)[1]	32,148	30,995	29,758	29,130	27,884
Undergraduate (%)	86	86	86	86	87
Graduate (%)	14	14	14	14	13
Total annual change (%)	3.7	4.2	2.2	4.5	(1.0)
Enrolment (Headcount)	34,267	33,147	31,843	31,265	29,865
Domestic	29,001	28,747	28,125	28,223	27,319
International	5,266	4,400	3,718	3,042	2,546
International share (%)	15.4	13.3	11.7	9.7	8.5
Total Employees [2]	5,736	5,589	5,418	5,251	5,286
Full-time faculty	1,555	1,503	1,476	1,437	1,438
Operating Results					
Surplus (deficit) (CAD millions)	92.1	157.0	105.7	112.1	29.1
As a share of revenue (%)	7.9	13.2	9.6	10.4	3.0
Revenue Mix					
Government funding (federal and provincial) (%)	39	37	40	41	45
Tuition fees (%)	31	29	28	26	26
Ancillary (%)	7	7	7	7	7
Donations and Investment Income (%)	8	12	9	12	6
Other (%)	15	16	16	15	16
Debt and Liquidity					
Total long-term debt (CAD millions)	254.0	254.7	255.3	255.9	256.5
Per FTE student ($)	7,902	8,217	8,580	8,785	9,200
Long-term debt, contingencies & commitments ($ millions)	996.9	888.3	688.4	647.6	857.6
Per FTE student ($)	31,009	28,659	23,133	22,231	30,755
Expendable Resources	598.3	607.7	558.4	528.9	447.4
As a share of total debt (%)	235.5	238.6	218.7	206.7	174.4
Interest costs as share of total expenditures (%)	1.2	1.3	1.3	1.4	1.2
Interest coverage ratio (times)	9.5	14.1	9.7	11.2	6.5
Endowment Funds					
Total market value ($ millions)	617.4	651.2	629.1	610.3	541.1
Per FTE student ($)	19,203	21,011	21,141	20,951	19,404
Payout ratio (% of five-year average market value)	4.0	4.0	4.0	4.0	4.0

1 FTE, excluding continuing education.

2 Headcount; excludes teaching assistants and sessional lecturers

Rating History

Issuer	Debt	Current	2020	2019	2018	2017	2016
McMaster University	Issuer Rating	AA	AA	AA	AA	AA	AA (low)
McMaster University	Senior Unsecured Debentures	AA	AA	AA	AA	AA	AA (low)

Related Research

- *Rating Public Universities*, May 15, 2020.
- DBRS Morningstar Canadian University Peer Comparison Table, January 15, 2021.
- Corporate Risk Assessment Scorecard for Public Universities, January 15, 2021.

Previous Report

- McMaster University: Rating Report, December 30, 2019.

About DBRS Morningstar

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