Rating Report
McMaster University

DBRS Morningstar
January 19, 2023

Contents

Travis Shaw
Senior Vice President, Public Finance
+1 416 597-7582
travis.shaw@dbrsmorningstar.com

Apurva Khandeparker
Assistant Vice President, Public Finance
+1 416 597-7467
apurva.khandeparker@dbrsmorningstar.com

Vaqar Hussain
Analyst, Public Finance
+1 416 597-7387
vaqar.hussain@dbrsmorningstar.com

Ratings

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

Rating Update

On January 13, 2023, 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, track record of strong financial management, and considerable financial flexibility as evidenced by a large pool of expendable resources. However, a constrained funding and tuition environment, combined with expectations for modestly lower enrolment and prior increases in debt leave limited capacity within the current ratings to withstand unforeseen shocks.

McMaster reported a consolidated surplus of $52.9 million, or 4.4% of revenues in 2021–22. This compares with a prior-year surplus of $232.0 million, with the year-over-year (YOY) deterioration mainly driven by a 5.4% investment loss stemming from global market volatility. This follows a positive investment return of 26.1% in 2020–21.

McMaster's budgetary performance is expected to remain strong. The consolidated budget projects a surplus of $121.3 million in 2022–23, followed by surpluses of $129.6 million and $144.6 million in the following two years. DBRS Morningstar notes McMaster has a practice of using conservative budget assumptions and seeks to meet or exceed targets. McMaster has conservatively planned for a reduction in full-time equivalent (FTE) enrolment, averaging 1.2% annually from 2022–23 through 2024–25. This reflects the University's objective to reduce domestic undergraduate enrolment to be in-line with its funded corridor, and McMaster's current view on international student access to study in Canada. As a result, higher international enrolment and domestic graduate enrolment will only provide a partial offset.

With no new debt anticipated in the near term, McMaster's debt is expected to decline gradually as a small piece of bank debt continues to amortize. For 2022–23, total debt is expected to be $419.2 million. However, when combined with lower enrolment, debt per FTE is forecast to rise to $11,988 per FTE in 2022–23, and approaching $12,300 per FTE by 2024–25. DBRS Morningstar anticipates McMaster will outperform its enrolment targets, leading to more favourable debt-per-FTE metrics.

Should debt per FTE rise materially above $12,000 on a sustained basis, this could result in downward pressure on the ratings. 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, an improvement in the government funding and tuition frameworks, and/or material reduction in debt.

Financial Information

	For the year ended April 30				
	2022	**2021**	**2020**	**2019**	**2018**
Consolidated operating result (adjusted; CAD millions)	52.9	232.0	92.1	157.0	105.7
Surplus-to-revenue (five-year rolling average; %)	10.6	11.8	8.8	8.8	8.0
Debt per FTE (CAD)	11,948	7,810	8,502	8,869	9,285
Interest coverage ratio (times)	6.3	21.7	9.5	14.1	9.7
Expendable resources to debt (%)	205	266	219	221	202

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 in Hamilton, and offers a broad range of undergraduate, graduate, and continuing education programs to more than 35,000 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 77% of revenue for McMaster.

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 Coronavirus Disease (COVID-19) pandemic as McMaster has taken steps to mitigate the deterioration in the University's 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 McMaster's expendable resources were $859.1 million at April 30, 2022, which equates to 205% 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 $768.2 million in 2021–22, up from $726.9 million in 2020–21. However, the facilities condition index (FCI) now stands at 26.9%, down from 28.1% in 2020–21. The University continues to focus on critical priorities and expects to maintain annual maintenance spending of approximately $17.0 million from various sources, including the University's own reserves, provincial funding, and ancillaries, where possible.

Operating Performance

2022–23 Budget

The University prepares a consolidated budget that includes the operating fund (approximately 70% 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.

McMaster's budgetary performance is expected to remain strong. The consolidated budget projects a surplus of $121.3 million in 2022–23, followed by surpluses of $129.6 million and $144.6 million in the following two years. DBRS Morningstar notes McMaster has a practice of using conservative budget assumptions and seeks to meet or exceed targets.

Consolidated revenues are budgeted to increase by 10.8% YOY in 2022–23, driven by a combination of higher tuition revenues, ancillary revenues, and investment income. McMaster has conservatively budgeted for a decline in enrolment as the University seeks to reduce domestic undergraduate enrolment (currently well above the funded corridor), which will only be partially offset by higher graduate enrolment. Despite expectations for a -0.5% decline in enrolment, tuition revenues will continue to rise supported by increases in international tuition fees. Furthermore, as pandemic impacts continue to subside, ancillary revenues are projected to increase, surpassing pre-pandemic levels, while investment income is budgeted to normalize, though still subject to considerable uncertainty. Operating grants are expected to be stable, consistent with past years.

Consolidated spending is forecast to rise by 5.3% in 2022–23. This reflects increased costs for salaries and benefits (6.1%) as a result of hiring to address rising student-faculty ratios, negotiated pay increases, and higher employee benefit costs. Additionally, supplies and services costs are projected to rise by 2.3%, while interest charges are projected to increase by 4.2% reflecting the full-year impact of debt financing completed in June 2021.

On a narrower operating-fund basis, the University budgeted for a deficit position in the operating fund of $4.7 million in 2022–23, followed by deficits of $15.0 million and $7.0 million in 2023–24 and 2024–25, respectively.

Operating Outlook

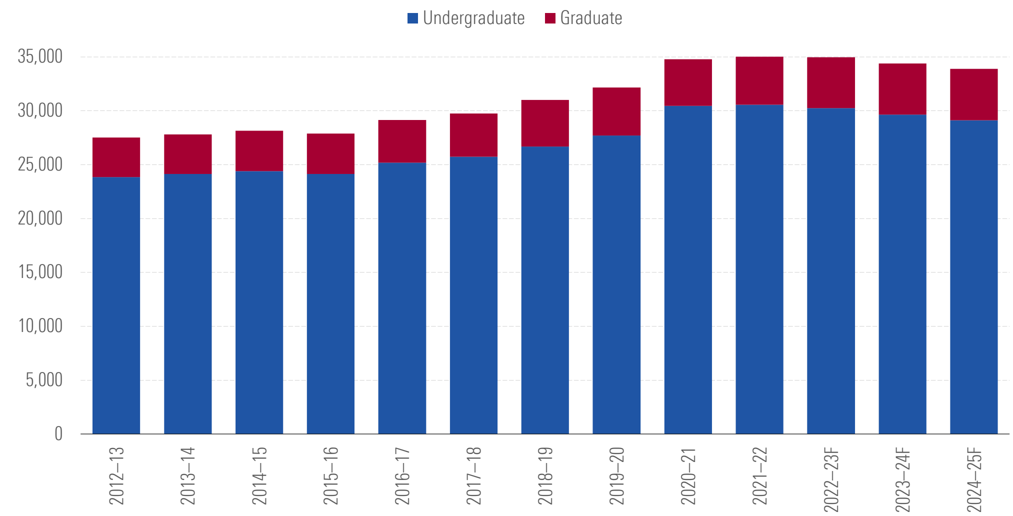
McMaster has yet to release an interim financial update for 2022–23, but DBRS Morningstar expects that the University will meet or exceed budget targets based on a history of outperformance.

The current Strategic Mandate Agreement (SMA3) covers the 2020–21 to 2024–25 fiscal years and includes a set of 10 performance metrics with funding consequences for not meeting the negotiated performance targets. However, the Province has continuously delayed the implementation of performance-based funding, now expected to begin in 2023–24.

The Province has yet to provide any tuition guidance for 2023–24, and, as a result, McMaster conservatively budgets for domestic tuition fees to remain frozen. DBRS Morningstar anticipates, given ongoing inflationary pressures and substantively improved finances at the provincial level, the Province may be compelled to provide some modest flexibility for domestic tuition fees, or targeted increases in grant funding, to support the overall financial health of the sector. The University continues to implement increases in tuition fees for out-of-province domestic students and international students.

McMaster has conservatively planned for a reduction in FTE enrolment, averaging 1.2% annually from 2022–23 through 2024–25. This reflects the University's objective to reduce domestic undergraduate enrolment to be in-line with its funded corridor, and McMaster’s current view on international student access to study in Canada. As a result, higher international enrolment and domestic graduate enrolment will only provide a partial offset. As international enrolment continues to increase, McMaster is aiming to diversify its international enrolment base to reduce geopolitical risks.

Exhibit 1 Total Enrolment (FTEs)



Sources: McMaster and DBRS Morningstar.

2021–22 Results

McMaster reported a consolidated surplus of $52.9 million, or 4.4% of revenues in 2021–22. This compares to a prior-year surplus of $232.0 million, with the YOY deterioration mainly driven by a 5.4% investment loss stemming from global market volatility. This follows a positive investment return of 26.1% in 2020–21.

Total revenues declined by 7.9% YOY in 2021–22 as higher tuition fees and a recovery in ancillary revenues were insufficient to offset the reduction in investment income. Following the Russian invasion of Ukraine and heightened market volatility, McMaster reported investment losses of 5.4%, or $32.3 million, compared with an outsize investment return of 26.1%, or $199.1 million, the previous year. Enrolment grew by 1.0% to 35,150 FTEs and combined with fee increases for unregulated programs, resulted in a 5.0% increase in tuition-fee revenues. Government operating grants grew by 2.3%, which reflected approved enrolment increases in the Bachelor of Science in Nursing program and in microcredentials, while the remaining grants were largely frozen. Ancillary revenues rebounded strongly (+264.3%) because of increased on-campus activity, but remained below pre-pandemic levels. Additionally, increased donations and other grants (+28.8%), amortization of deferred capital contributions (+4.9%,) and other revenues (+16.3%) helped to mitigate the overall decline in revenues.

Total expenses grew by 7.1% YOY in 2021–22. Salaries and benefits remain the primary cost driver, rising by 4.6%, which reflects staff recalls with the increased return to campus, faculty recruitment, and negotiated wage increases. These pressures were partly offset by lower pension costs following strong investment returns in the prior year. Other supplies and expenses increased by 12.6%, also affected by increased on-campus activity, but McMaster realized savings in the overall travel and office supply costs with the shift to hybrid working arrangements. Amortization expense increased by 5.8% YOY. Interest expense rose by 31.6%, resulting from $150.0 million in debentures issued early in the year.

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.

In 2021–22, capital spending amounted to $133.0 million, consistent with the five-year historical average. Key projects during the year included the Student Activity and Fitness Expansion, the McLean Centre for Collaborative Discovery, the Peak Shavers Generators project to reduce carbon emissions, public-private developments on a downtown graduate residence, and an expansion of undergraduate residences.

Key projects under way in 2022–23 include the following:

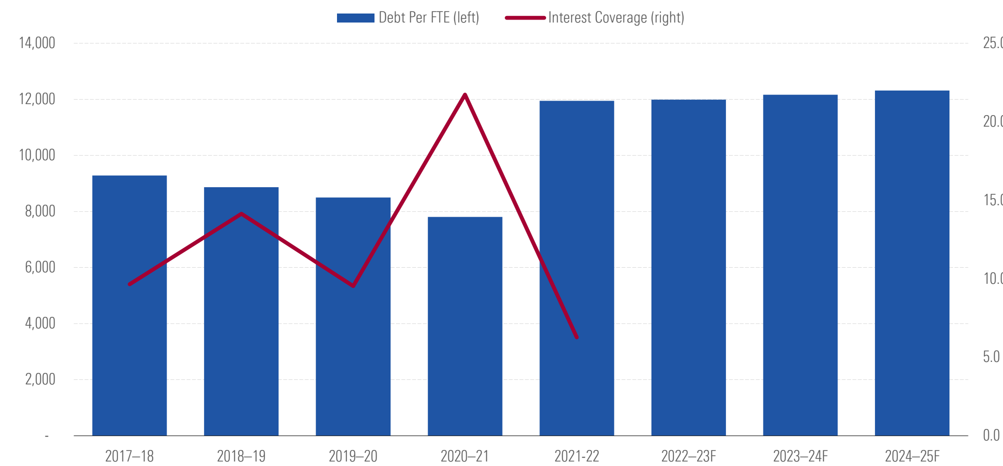
- DeGroote School of Business Expansion ($128 million): This will provide additional academic/administrative space and add a new nine-storey facility. Included in this expansion is the McLean Centre for Collaborative Discovery: the renovation project is to be funded primarily by the McLean family, combined with donations and the University's own reserves.
- David Braley Athletic Centre Expansion (Student Activity and Fitness Expansion) and Pulse Fitness Centre ($64 million): The expansion includes fitness studios, study space, and other recreation facilities funded through the student union with some contribution from the University.
- Research Capital Commercialization Project (at McMaster Innovation Park; $70 million): McMaster is investing in the renovation of an existing warehouse that will be sublet to research-intensive companies to support the commercialization of research.
- 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 fall 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 1,366 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 timeline has been affected by the pandemic and inflationary pressures, with completion now expected in the fall of 2026.
- Global Nexus for Pandemics and Biological Threats: McMaster envisions the Global Nexus project being an innovation hub focused on ensuring the world is better prepared for future pandemics and biological threats.

The University has a number of other projects under consideration for the medium and longer term. These include the Bates Residence retrofit and the John Hodgins Engineering Building –The PIVOT— along with renovations to the Life Sciences Building. Although they are yet to be approved, these projects are expected to be funded through a combination of internal financing and fundraising.

Deferred maintenance at McMaster is estimated to be $768.2 million in 2021–22, up $726.9 million in 2020–21. However, the FCI now stands at 26.9%, down from 28.1% in 2020–21. The University continues to focus on critical priorities and expects to maintain annual maintenance spending of approximately $17.0 million from various sources, including the University’s own reserves, provincial funding, and ancillaries, where possible.

Debt and Liquidity

Exhibit 2 Debt and Interest Coverage



Source: DBRS Morningstar.

McMaster's long-term debt totalled $420.0 million at April 30, 2022, up $148.8 million from the previous year. The increase follows $150.0 million of new debt issuance in June 2021, offset by amortization of existing debt. This equates to debt per FTE of $11,948, up from $7,810 in 2020–21, consistent with DBRS Morningstar's previous expectations.

The University’s debt is composed of four long-dated debentures due between 2051 and 2071 and a small amount of amortizing bank debt ($12.6 million). DBRS Morningstar also includes guaranteed obligations related to the McMaster Innovation Park (see Other Long-Term Obligations below) in its measure of total university debt. Interest coverage moderated to 6.3 times on account of higher debt and weaker operating results.

The University has established voluntary sinking funds for the debentures. At April 30, 2022, the sinking funds totalled $54.6 million. With ongoing contributions and investment returns, the funds are expected to be sufficient to retire the debentures.

Other Long-Term Obligations

The University has provided a guarantee of up to $23.0 million to the First Longwood Innovation Trust on a senior unsecured basis related to activities at the McMaster Innovation Park. At April 30, 2022, $17.4

million was outstanding related to this guarantee, which adds approximately $500 to debt per FTE. The underlying obligation is scheduled to fully amortize by 2035.

In addition to long-term debt, McMaster reported a decommissioning obligation of $18.6 million at April 30, 2022, related to the eventual retirement of its nuclear reactor. The University has established a trust fund valued at $14.5 million, as well as other internal reserves, to cover future decommissioning costs. DBRS Morningstar does not include this amount in its calculation of total debt.

Expendable Resources

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. As at April 30, 2022, DBRS Morningstar estimated McMaster's expendable resources totalled $859.1 million, or 204.5% of total debt. This places McMaster among the strongest of DBRS Morningstar-rated universities and reflects its considerable balance sheet flexibility.

Increased market volatility led to weak investment returns with McMaster's total endowments falling by 6.8% YOY. On a per-FTE basis, this still equates to $20,057, 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 postretirement benefits. Only one of the defined benefit pension plans remains open to new members. The University also has a group registered retirement savings plan for a growing number of employees.

The latest actuarial valuation for the University's salaried plans was filed on July 1, 2021, which revealed a going-concern surplus of $128.2 million, and solvency deficit of $147.6 million. Both balances represent an improvement relative to the prior valuation, helped by the reclassification of one of the plans to open, from closed, and strong investment returns. Furthermore, with a solvency ratio of 102%, McMaster is not required to make special payments. The next valuation is required by July 1, 2024.

For the Hourly Pension Plan, the University filed a valuation as of January 1, 2020, reporting a solvency ratio of 90%, thereby avoiding the requirement to make special payments. The 2020 valuation reported a going-concern surplus of $2.7 million and a solvency deficit of $8.1 million.

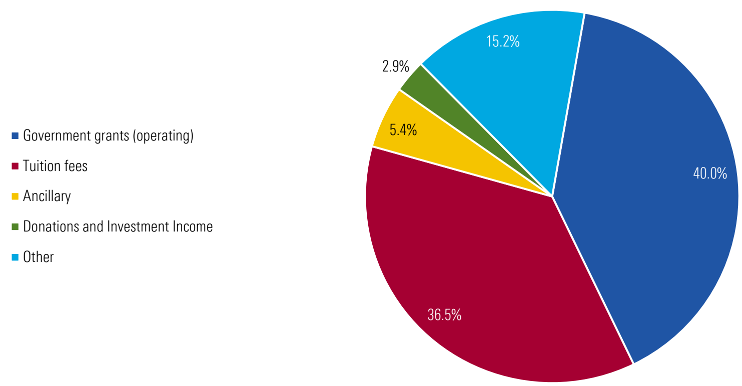
Nonpension postemployment benefit liabilities totalled $268.9 million at April 30, 2022, down 6.4% from the previous year. These mainly comprise health, dental, and life insurance benefits to retirees. Although not mandated, the University continues to set aside funds in an internally restricted reserve, which totalled $192.0 million as at April 30, 2022. Under a board-approved policy, McMaster plans to fully fund nonpension postemployment obligations by 2035.

Debt Outlook

With no new debt anticipated in the near term, McMaster's debt is expected to decline gradually as a small piece of bank debt continues to amortize. For 2022–23, total debt is expected to be $419.2 million. McMaster has conservatively assumed declining enrolment as they intentionally target a reduction in domestic undergraduate enrolment, only partly offset by higher international enrolment and domestic graduate enrolment. As a result, debt per FTE is forecast to rise to $11,988 per FTE in 2022–23, and approach $12,300 per FTE by 2024–25. DBRS Morningstar anticipates McMaster will outperform its enrolment targets, leading to more favourable debt-per-FTE metrics; however, should debt per FTE rise materially above $12,000 on a sustained basis, this could result in downward pressure on the ratings.

University Funding in Ontario

Exhibit 3 Revenue Breakdown (2021–22)



Sources: McMaster and DBRS Morningstar.

Government Funding (Provincial and Federal; 40.0%)

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

The Province and universities have signed new Strategic Mandate Agreements that establish performance-based funding targets for the 2020–21 to 2024–25 fiscal years. This is a change from the previous enrolment-oriented funding model. SMA3 will include a set of 10 performance metrics, with funding consequences if the University does not meet the negotiated performance targets. In light of pandemic-led operating pressures and the need for funding stability, SMA3 funding remains decoupled from performance targets for the time being.

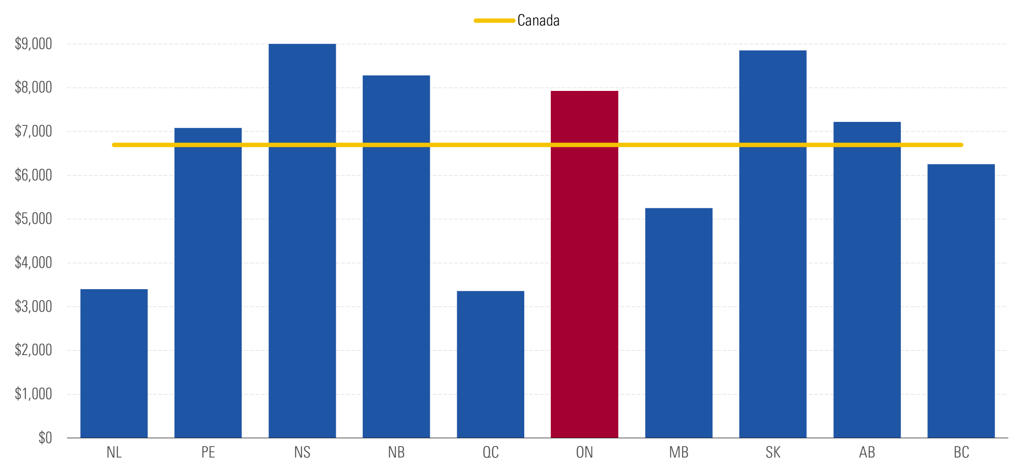
Research and capital grants are another important source of funding. Since the announcement of the global coronavirus pandemic in March 2020, both federal and provincial governments have provided additional funding for financial assistance to students to offset some pandemic-related costs.

Tuition (36.5%)

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 tuition freeze was extended through the 2021–22 academic year. Although the tuition freeze continues into the 2022–23 year, universities are allowed to increase fees up to 5% for out-of-province students.

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 (2.9%)

Unrestricted donations and investment income, recognized on the statement of operations, typically represent about 10% of the University's revenue. While McMaster recorded an increase in donations in 2021–22, they incurred a loss in their investments resulting in this source accounting for just 2.9% of total revenues. 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 $117.4 million in calendar year 2021. Currently, McMaster is undertaking 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.

Environmental, Social, and Governance (ESG) Credit Risk Considerations

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. For more details about which environmental factors could have an effect on the credit analysis, please refer to the following checklist.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit analysis, please refer to the following checklist.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the following checklist.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://www.dbrsmorningstar.com/research/396929.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	N	N
	Emissions,Effluents, and Waste	Do we consider the costs or risks result, or could result in changes to an issuer's financial, operational, and/or reputational standing?	N	N
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs?	N	N
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore revenues?	N	N
	Land Impact and Biodiversity	Is there a financial risk to the issuer for failing to effectively manage land conversion, rehabilitation, land impact, or biodiversity activities?	N	N
	Climate and Weather Risks	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N
Social		**Overall:**	N	N
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	N	N
	Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or operational impact?	N	N
		Do violations of rights create a potential liability that can negatively affect the issue's financial wellbeing or reputation?	N	N
		Human Capital and Human Rights	N	N
	Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N
	Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	N	N
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative financial impact on the issuer?	N	N
	Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N
	Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N
Governance		**Overall:**	N	N
	Bribery, Corruption, and Political Risks	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N
		Are there any political risks that could impact the issuer's financial position or its reputation?	N	N
		Bribery, Corruption, and Political Risks	N	N
	Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N
	Corporate / Transaction Governance	Does the issuer's corporate structure limit appropriate board and audit independence?	N	N
		Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N
		Corporate / Transaction Governance	N	N
	Institutional Strength, Governance, and Transparency (Governments Only)s	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	N	N
		Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N
		Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency (Governments Only)s	N	N
		Consolidated ESG Criteria Output:	N	N

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer. A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Statement of Operations (Adjusted)

(CAD thousands)

	2022	2021	2020	2019	2018
Total Revenue	1,197,630	1,300,661	1,160,970	1,193,010	1,102,178
Total Expense	1,144,702	1,068,652	1,068,900	1,036,018	996,491
Consolidated Operating Result	52,928	232,009	92,070	156,992	105,687
Revenue					
Tuition fees	437,397	416,510	360,665	341,629	305,171
Government operating grants	284,747	278,446	275,906	273,587	273,493
Research grants and contracts	199,882	181,146	189,283	193,412	183,768
Ancillary operations	64,718	17,767	75,959	78,202	77,112
Investment income	(32,252)	199,111	26,392	70,820	52,275
Donations and other grants	66,389	51,543	69,809	67,906	47,714
Amortization of deferred capital contributions	44,853	42,761	40,773	38,835	40,112
Other revenue	131,896	113,377	122,183	128,619	122,533
Total Revenue	**1,197,630**	**1,300,661**	**1,160,970**	**1,193,010**	**1,102,178**
Expense					
Salaries and benefits	725,792	693,869	676,506	641,842	619,723
Other supplies and expenses	314,178	278,985	300,877	308,107	291,433
Amortization	87,340	82,587	78,260	72,769	71,995
Interest	17,392	13,211	13,257	13,300	13,340
Total Expense	**1,144,702**	**1,068,652**	**1,068,900**	**1,036,018**	**996,491**
Consolidated Operating Result	52,928	232,009	92,070	156,992	105,687
Gross Capital Expenditures	132,984	109,316	127,922	148,010	145,591

Statement of Financial Position (Adjusted)

(CAD thousands)	As at April 30				
Assets	**2022**	**2021**	**2020**	**2019**	**2018**
Cash and short-term investments	365,996	303,757	200,630	225,846	208,242
Receivables	180,363	149,605	151,656	138,942	136,383
Inventories and prepaid expenses	27,427	23,324	32,533	19,352	15,333
Long-term investments	1,667,060	1,614,783	1,313,986	1,329,541	1,256,897
Other investments and intangible assets	42,546	34,405	30,012	24,111	23,940
Capital assets	1,276,062	1,231,476	1,208,455	1,158,793	1,083,552
Total Assets	**3,559,454**	**3,357,350**	**2,937,272**	**2,896,585**	**2,724,347**
Liabilities and Net Assets					
Liabilities and Deferred Contributions					
Payables and other current liabilities	211,814	195,627	172,250	181,257	165,918
Employee future benefits	275,714	169,928	448,446	357,290	228,579
Deferred contributions—endowment	151,655	138,782	114,511	106,505	98,265
Other deferred contributions	330,336	299,208	256,589	256,663	260,926
Deferred capital contributions	462,102	480,736	491,662	505,591	511,302
Long-term debt	402,558	253,314	254,023	254,688	255,312
Decommissioning obligation	18,637	15,077	14,383	13,718	13,122
Total Liabilities	**1,852,816**	**1,552,672**	**1,751,864**	**1,675,712**	**1,533,424**
Net Assets					
Unrestricted	-	-	-	10,755	9,781
Internally restricted	580,073	543,692	97,679	159,426	234,151
Equity in capital assets	421,571	504,770	470,378	399,463	317,879
Endowment—internally restricted	156,615	171,813	141,333	150,410	145,777
Endowment—externally restricted	548,379	584,403	476,018	500,819	483,335
Net Assets	**1,706,638**	**1,804,678**	**1,185,408**	**1,220,873**	**1,190,923**
Total Liabilities and Net Assets	**3,559,454**	**3,357,350**	**2,937,272**	**2,896,585**	**2,724,347**
Contingencies and Commitments					
Capital commitments	249,100	339,100	294,400	276,300	204,500
Debt service deficiency agreement	17,400	18,400	19,300	20,200	21,000
Total	**266,500**	**357,500**	**313,700**	**296,500**	**225,500**

Calculation of Free Cash Flow (Adjusted)

(CAD thousands)	As at April 30				
	2022	**2021**	**2020**	**2019**	**2018**
Operating balance before fund contributions	52,928	232,009	92,070	156,992	105,687
Amortization	87,340	82,587	78,260	72,769	71,995
Other noncash adjustments	(48,592)	(40,826)	(57,234)	(55,027)	(62,234)
Cash flow from operations	91,676	273,770	113,096	174,734	115,448
Change in working capital	28,231	113,062	(14,133)	13,062	16,951
Operating cash flow after working capital	119,907	386,832	98,963	187,796	132,399
Net capital expenditures[1]	(105,707)	(73,773)	(101,078)	(114,886)	(85,005)
Free cash flow	14,200	313,059	(2,115)	72,910	47,394

1 Gross capital expenditures less contributions restricted for capital purposes.

Summary Statistics (Adjusted)

For the year ended April 30

	2022	2021	2020	2019	2018
Total Enrolment (FTE)[1]	35,150	34,791	32,148	30,995	29,758
Undergraduate (%)	87	88	86	86	86
Graduate (%)	13	12	14	14	14
Total annual change (%)	1.0	8.2	3.7	4.2	2.2
Enrolment (Headcount)	37,370	36,450	34,267	33,147	31,843
Domestic	30,944	30,710	29,001	28,747	28,125
International	6,426	5,739	5,266	4,400	3,718
International share (%)	17.2	15.7	15.4	13.3	11.7
Total Employees[2]	6,494	6,157	5,736	5,589	5,418
Full-time faculty[3]	1,626	1,591	1,555	1,503	1,476
Operating Results					
Surplus (deficit) (CAD millions)	52.9	232.0	92.1	157.0	105.7
As a share of revenue (%)	4.4	17.8	7.9	13.2	9.6
Share of revenue (five-year moving average; %)	10.6	11.8	8.8	8.8	8.0
Revenue Mix					
Government funding (federal and provincial; %)	40	35	39	37	40
Tuition fees (%)	37	32	31	29	28
Ancillary (%)	5	1	7	7	7
Donations and investment income (%)	3	19	8	12	9
Other (%)	15	12	15	16	16
Debt and Liquidity					
Total long-term debt (CAD millions)[4]	420.0	271.7	273.7	274.9	276.3
Per FTE student (CAD)	11,948	7,810	8,502	8,869	9,285
Long-term debt, contingencies, and commitments (CAD millions)	944.8	780.7	1,016.2	908.5	709.4
Per FTE student (CAD)	26,878	22,441	31,609	29,310	23,839
Expendable resources (CAD millions)	859.1	723.8	598.3	607.7	558.4
As a share of total debt (%)	204.6	266.4	218.9	221.1	202.1
Interest costs as share of total expenditures (%)	1.5	1.2	1.2	1.3	1.3
Interest coverage ratio (times)	6.3	21.7	9.5	14.1	9.7
Endowment Funds					
Total market value (CAD millions)	705.0	756.2	617.4	651.2	629.1
Per FTE student (CAD)	20,057	21,736	19,203	21,011	21,141
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, sessional lecturers and temporary staff.

3 Includes clinical educators.

4 Includes guaranteed obligations related to the McMaster Innovation Park.

Rating History

Issuer	Debt	Current	2022	2021	2020	2019	2018
McMaster University	Issuer Rating	AA	AA	AA	AA	AA	AA
McMaster University	Senior Unsecured Debt	AA	AA	AA	AA	AA	AA

Related Research

- *International Student Recruitment Rebound Hindered by Canada's Visa Processing Backlog*, November 1, 2022.
- *Rating Public Universities*, May 5, 2022.
- *University Applications Grow in Ontario — What Does it Mean for Enrolments?* February 28, 2022.

Previous Report

- McMaster University: Rating Report, February 1, 2022.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc.