Research Update:

University of Nottingham Rating Lowered To 'A+' Following Downgrade Of The United Kingdom; Outlook Remains Stable

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Overview

- On June 27, 2016, we lowered our unsolicited long-term rating on the United Kingdom to ‘AA’ from ‘AAA’.
- Our continued assessment of a moderately high likelihood of the University of Nottingham (Nottingham) receiving extraordinary support from the U.K. government now has a neutral impact on the ratings.
- Consequently, we are lowering our long-term issuer credit ratings on Nottingham to ‘A+’ from ‘AA-’.
- The outlook is stable, reflecting our continued expectation that Nottingham will maintain its high levels of student demand, supporting net surpluses averaging about 3% of revenues.

Rating Action

On July 4, 2016, S&P Global Ratings lowered its long-term foreign and local currency issuer credit ratings on U.K.-based University of Nottingham (Nottingham) to 'A+' from 'AA-'. The outlook is stable.

Rationale

The downgrade of Nottingham follows our lowering of the unsolicited long-term sovereign credit ratings on the U.K. (see "Ratings On The United Kingdom Lowered To 'AA' On Brexit Vote; Outlook Remains Negative On Continued Uncertainty," June 27, 2016).

The rating on Nottingham continues to reflect its stand-alone credit profile (SACP), which we assess at ‘a+’. The rating also reflects our opinion of the moderately high likelihood that the U.K. government, through the Higher Education Funding Council for England (HEFCE), would provide extraordinary support in the unlikely event that the university becomes financially distressed.

In accordance with our criteria for rating government-related entities (GREs; see "Rating Government-Related Entities: Methodology And Assumptions," published March 25, 2015), our view of a moderately high likelihood of extraordinary government support is based on our assessment of Nottingham’s:

- Important role for the U.K. government, demonstrated by the significance and profile of U.K. higher education policy as a key part of the government’s economic strategy; and
- Strong link with the U.K. government, via HEFCE, demonstrated by its track record of providing credit support to the sector and ongoing regulatory oversight.
The 'a+' SACP on Nottingham reflects high levels of student demand, supported by the university's robust academic reputation. The university has continued to demonstrate sound financial performance, and we expect it to maintain this over the rating horizon. We also consider the university's financial management to be strong, as demonstrated by the university's continuing ability to successfully navigate the current period of significant change in the U.K. higher education sector.

However, our view of the U.K. central government's likely extraordinary support to Nottingham is now neutral for the rating. Prior to downgrading the U.K. we had factored in a one-notch uplift for government support.

At this stage, there is no clear indication of the impact that the U.K.'s EU referendum result will have on demand from EU-based students at Nottingham or across the sector, or on the university or the sector's ability to attract and retain academic talent.

**Outlook**

The stable outlook reflects our expectation that Nottingham will maintain a very strong competitive position over the next two years, despite the changes facing the sector. We therefore believe it will maintain its high levels of student demand and continue to closely manage its spending base, supporting net surpluses averaging about 3% of total revenues.

We could raise the rating if the university materially strengthens its academic reputation, both at home and internationally, in a manner that enables it to produce greater levels of income from research and from overseas students, thereby further strengthening its financial performance.

We could consider lowering the rating if there was a structural waning in student demand, or a change in the university's financial strategy that led to a diminished financial performance and a sharp increase in debt. However, we view our upside and downside scenarios as unlikely at present.

**Related Criteria And Research**

**Related Criteria**

- General Criteria: Methodology: Not-For-Profit Public And Private Colleges And Universities - January 06, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating - October 01, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

**Related Research**

- Ratings On The United Kingdom Lowered To ‘AA’ On Brexit Vote; Outlook Remains Negative On Continued Uncertainty, June 27, 2016
## Ratings List

<table>
<thead>
<tr>
<th>Rating/To</th>
<th>From</th>
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<tbody>
<tr>
<td>Nottingham (University of)</td>
<td></td>
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<tr>
<td>Issuer Credit Rating</td>
<td></td>
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<tr>
<td>Foreign and Local Currency</td>
<td>A+/Stable/--</td>
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.