

Research Update:

University of Nottingham 'A+' Rating Affirmed; Outlook Stable

June 24, 2024

Overview

- Although student enrolment across the U.K. higher education sector is likely to be negatively affected by recent changes to immigration policies and the higher cost of living, we expect long-term demand for courses taught by the University of Nottingham to remain solid. This should help the university regain a steady revenue growth over the next two to three years.
- Following a relatively weak fiscal year to July 31, 2023, when operating cost inflation exceeded revenue growth, we project that Nottingham's operating margins will remain weaker than in prior years but marginally recover from fiscal 2025.
- We also forecast that the university's cash resources will reduce through fiscal 2024, but this is somewhat mitigated by its access to available credit facilities, and we project higher cash holdings from fiscal 2025.
- We affirmed our 'A+' long-term issuer credit rating on Nottingham. The outlook is stable.

Rating Action

On June 24, 2024, S&P Global Ratings affirmed its 'A+' long-term issuer credit rating on U.K.-based education provider University of Nottingham. The outlook is stable.

Outlook

The stable outlook indicates that we expect Nottingham's planned program of cost savings and measures to recover its revenue growth will improve its financial performance. This should alleviate pressure on Nottingham's financial resources, which have been relatively weak since fiscal 2023. The stable outlook also signifies that we anticipate that Nottingham will be able to manage its ongoing investment program without material debt funding, resulting in relatively stable debt metrics.

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Downside scenario

We could lower the rating on Nottingham if management's execution falls short of our expectations and the university's operating margin deteriorates further. We could also lower our rating if the university materially depletes its cash or increases its debt burden to fund investment or operations.

Upside scenario

We could raise the rating on Nottingham if financial performance is much stronger than expected, which should also bolster the university's cash position to structurally strengthen financial resources to more than 60% of operating expenditure (opex). An upgrade would also depend on the university's debt remaining relatively stable.

Rationale

Our rating on Nottingham is underpinned by its market position, which we expect will remain solid even though student recruitment is down across the sector. Enrolment is likely to be negatively affected by changes to the U.K.'s immigration rules, as well as the higher cost of living. Although we anticipate that this will squeeze Nottingham's operating margin further during fiscal 2024, we expect management to take steps to regain the university's steady revenue growth trajectory over the next two to three years, while implementing further cost savings measures. We consider that the management team's solid expertise and experience helps it operate the university effectively, as demonstrated during the pandemic.

Nottingham's cash resources have recently been depleted and are now relatively low compared to operating costs. However, its access to available credit facilities somewhat mitigates the issue. Nottingham benefits from having issued fixed-rate debt--even including the off-balance-sheet debt linked to its partnership with University Property Partnerships (UPP), its overall debt metrics are stronger than many domestic peers.

Enterprise profile: Underpinned by a strong reputation that supports solid demand and management's proactive measures to offset sectorwide challenges

Because the higher education sector is anticyclical in nature and has high barriers to entry, we assess its industry risk as low. Nottingham also has a strong reputation as a Russell Group University and solid world rankings. Although Nottingham dropped to No. 108 in the 2025 QS World University Ranking, from No. 100 in 2024, this is still a good ranking that should continue to attract students. Therefore, we do not expect this decline to hamper the university's reputation. Both factors help it to counter the current sectorwide difficulties in maintaining student recruitment and will support strong student demand in the long term.

The number of full-time equivalent (FTE) students studying at Nottingham has increased in each of the past four years. We expect FTE enrolment for fiscal 2024 (2023 student entry) to decline as the higher cost of living, combined with recent changes to the student immigration rules, has affected the higher education sector in England, including Nottingham. That said, we view this decline as a one-off event linked to the current challenges and do not anticipate that Nottingham will continue to see declining FTE numbers over the next two years.

Nottingham plans to shift its focus to improving the student experience from nominal growth. Management plans to stabilize student numbers at current levels, while gradually increasing the proportion of international and post-graduate students. Nottingham will aim to enhance student quality by investing in the university estate and student wellbeing. The university recently acquired Castle Meadow Campus, located in Nottingham's city center, and will invest heavily in this estate over the current and next two years. The university is building links to legal and auditing firms that have offices on this campus, which we think will support its aim of attracting an increasing number of postgraduate students.

Over the past five years, Nottingham's admissions have remained selective; on average, the university made offers to only 65% of applicants in this period. Nottingham also maintained a strong retention rate over this period, similar to other U.K. universities, at an average of over 90%.

We view Nottingham's overall strategy as strong and diligent, and adaptive to changing circumstances. We also consider that management has solid expertise and experience and operates the university effectively. Management takes a proactive approach to managing the university's revenue and cost base, as demonstrated by the measures implemented during the pandemic. Although Nottingham has not been immune to the issues related to enrolment, the university continues to strive toward streamlining the university's cost base, reducing inefficiencies in its estate, and mitigating the impact of inflationary cost pressures.

Financial profile: Financial performance and liquidity expected to recover from sectoral headwinds, while debt profile remains strong

Nottingham's financial performance has come under pressure because sectorwide issues related to student enrolment have affected tuition fee revenue and persistent inflation has pushed up staff costs. The university has also used its available cash to fund its ongoing capital needs, primarily its investment in the Castle Meadow Campus. The demand on its cash, combined with weak performance, have weakened the university's liquidity position, although this gets some support from the available uncommitted credit facilities. Although we forecast that Nottingham's performance and its resource position are likely to recover through our forecast period to July 31, 2026, our base case projections for the university's operating margin and available resources as a percentage of opex have both declined. Our five-year average operating margin is now 1.6%, down from 4.5% in our previous base case, and available resources are forecast to cover just over 20% of opex, averaged over five years, down from 27% previously.

That said, Nottingham's debt burden remains relatively stable. It is still low compared with many peers, and largely in line with our previous base case. The maximum five-year average annual debt service stands at about 1.7% of operating expenses. At the same time, we estimate that the university's five-year average resources-to-debt ratio is just over 80%, down from more than 110% in our previous base case. At year-end fiscal 2024, we expect Nottingham's debt position, including the off-balance-sheet UPP debt, to remain unchanged from the year before. Although the university may fund some of its future capital expenditure (capex) from debt, we consider that Nottingham has sufficient headroom to do so without immediately affecting the debt metrics.

Government-related entity analysis

We assess there is a moderately high likelihood that the U.K. government, through the Office for Students, would provide extraordinary support to Nottingham in the event of financial distress. Our view is based on our view that Nottingham:

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- Plays an important role for the U.K. government, given the significance and profile of U.K. higher education policy; and
- Has a strong link with the U.K. government, as demonstrated by its record of providing support to the sector and ongoing regulatory involvement.

Given the University of Nottingham's stand-alone credit profile of 'a+', our analysis of the likelihood of government support is currently neutral to the rating.

Environmental, Social, And Governance

We analyzed Nottingham's risks related to environmental, social, and governance factors and consider them neutral in our credit rating analysis. We acknowledge elevated social risks related to the ongoing dispute with the staff unions, although these are lower than in the past two years, given that agreements regarding pension contributions have been achieved.

Selected Indicators

University of Nottingham--Key Statistics

| (Mil. £) | --Financial year end July 31-- | | | | |
|---|--------------------------------|--------|--------|--------|--------|
| | 2022a | 2023a | 2024e | 2025bc | 2026bc |
| Enterprise profile | | | | | |
| Full-time equivalent enrolment (no.) | 33,715 | 35,810 | 34,457 | N/A | N/A |
| Undergraduates selectivity rate (%) | 72.2 | 68.2 | 70.2 | N/A | N/A |
| Undergraduates as a % of total FTE enrolment | 78.8 | 77.0 | 77.6 | N/A | N/A |
| Retention rate (%) | 96.5 | 96.5 | 96.5 | N/A | N/A |
| Graduation rates (five years) (%) | 95.6 | 95.5 | 95.5 | N/A | N/A |
| Financial profile | | | | | |
| Operating revenue | 801.7 | 822.8 | 809.4 | 877.6 | 903.2 |
| Adjusted operating expense† | 743.0 | 820.2 | 827.8 | 867.8 | 894.7 |
| Net adjusted operating margin (%)* | 7.9 | 0.3 | -2.2 | 1.1 | 0.9 |
| Student dependence (%) | 54.1 | 52.9 | 54.1 | 53.4 | 55.3 |
| Research dependence (%) | 16.4 | 15.7 | 17.1 | 17.9 | 16.3 |
| Government grant dependence (%) | 13.5 | 14.4 | 13.5 | 12.4 | 12.1 |
| Endowment and investment income dependence (%) | 0.7 | 0.7 | 0.4 | 0.6 | 0.6 |
| Adjusted outstanding debt | 187.8 | 188.6 | 188.3 | 208.3 | 288.3 |
| Maximum annual debt service/total operating expense (%) | 1.7 | 1.6 | 1.6 | 1.6 | 2.2 |
| Cash and investments to adjusted operating expenses (%) | 28.4 | 23.9 | 14.2 | 16.0 | 19.9 |
| Cash and investments to total debt (%)§ | 112.2 | 104.1 | 62.5 | 66.8 | 61.7 |

*Net income/Operating expense. §Does not include undrawn revolving credit facilities as an available resource. †--Adjusted for noncash pension-related costs and pension provision movements. a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

Ratings Score Snapshot

University of Nottingham--Ratings Score Snapshot

| | Assessment |
|---------------------------------|------------|
| Enterprise profile | 2 |
| Industry risk | 2 |
| Economic fundamentals | 1 |
| Market position | 2 |
| Management and governance | 2 |
| Financial profile | 3 |
| Financial performance | 3 |
| Financial resources | 4 |
| Debt and contingent liabilities | 3 |
| Stand-alone credit profile | a+ |
| Issuer credit rating | A+ |

S&P Global Ratings bases its ratings on not-for-profit education providers on the seven main rating factors listed in the table above. Our criteria article "Global Not-For-Profit Education Providers," published on April 24, 2023, summarizes how the seven factors are combined to derive each education provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- Criteria | Governments | General: Global Not-For-Profit Education Providers, April 24, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Your Three Minutes In The U.K. University Sector: Immigration Restrictions Dent Universities' Finances, May 21, 2024
- United Kingdom, April 22, 2024
- Outlook For Global Not-For-Profit Higher Education: Credit Quality Divergence Continues, Dec. 7, 2023

Ratings List

Ratings Affirmed

Nottingham (University of)

| | |
|----------------------|--------------|
| Issuer Credit Rating | A+/Stable/-- |
|----------------------|--------------|

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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