Evento Relevante de Calificadoras

FECHA: 05/09/2014

BOLSA MEXICANA DE VALORES, S.A.B. DE C.V., INFORMA:

CLAVE DE COTIZACIÓN	HR
RAZÓN SOCIAL	HR RATINGS DE MEXICO, S.A. DE C.V.
LUGAR	México, D.F.

ASUNTO

HR Ratings assigns a HR BBB (G) rating to the Arlington Higher Education Finance Corporation $12M Education Revenue and Refunding Bonds (Arlington Classics Academy), Series 2014A and $7M Taxable Education Revenue Refunding Bonds (Arlington Classics Academy) Series 2014B. The Rating Outlook is Stable.

EVENTO RELEVANTE

Mexico City, (September 5, 2014) - HR Ratings assigns an HR BBB (G) rating to the Arlington Higher Education Finance Corporation Education Revenue and Refunding Bonds (Arlington Classics Academy), Series 2014A, and Taxable Education Revenue Refunding Bonds (Arlington Classics Academy) Series 2014B. The Rating Outlook is Stable. The 'HR BBB (G)' rating reflects healthy pro forma debt service coverage ratios (DSCR) above bond covenant levels in all six years of the forecast period, and years of payment on the projected debt that declines from 5.9 years in fiscal 2014 to 3.5 years in fiscal 2019. The rating also considers the recent decline in financial performance in fiscals 2011 and 2012 due to an unanticipated increase in expenditures in fiscal 2011 and a decline in state per student funding in fiscal 2012, and no plans to fund a debt service reserve fund for the series 2014 bonds. Also incorporated into the rating are Arlington Classics Academy's (ACA, or the academy) continued student demand, solid operating history, and good school system accountability performance ratings. HR Ratings' base case scenario financial forecast is based on reasonable assumptions including increased annual enrollment growth averaging 2.4% annually through the 2018 to 2019 school year, forecast increases in annual state per student funding at 2% annually, and healthy financial unrestricted cash reserves at $2M in fiscal 2013 that are projected to improve over the next five years. HR Ratings believes ACA should be able to meet the aforementioned targets based on the high number of students on the academy's wait list and a gradual restoration of state funding to pre-fiscal 2012 levels.

The rating is based on the following credit rating drivers:

Under HR Ratings' base case forecast scenario, the fiscal 2014 DSCR is 1.4 times (x), and ranges between 1.2x and 1.5x over the fiscal 2015 to 2019 forecast period. Years of payment declines from 5.9x in fiscal 2014 to 3.5x in fiscal 2019. The bond covenant DSCR remains above 1.3x over the entire forecast period.

Under HR Ratings' stress case forecast scenario, DSCR levels range between 0.7x and 1.4x over the fiscal 2015 to 2019 forecast period, and years of payment increases to 7.4 in fiscal 2019.

Under stress case scenario, the debt service ratio including cash (DSCRC) is 3.4x in fiscal 2015 and averages 5.7x over the remaining forecast period. The bond covenant DSCR falls below 1.0x to 0.9x in fiscal 2019.

Other factors include:

Two years of weak financial performance (in fiscals 2011 and 2012) with low EBITDA margins of 0.4% in fiscal 2011, and a DSCR of below 1.0x in both fiscal years 2011 and 2012 due to an unanticipated increase in operating expenses in fiscal 2011 and a decline in state per student funding in fiscal 2012.

An operating history of 15 years and a charter term that has been renewed three times, most recently for a period of ten years extending to July 31, 2023.

Limited financial flexibility, with a high concentration of revenues from state funds, but current healthy and increasing liquidity over the forecast period. Unrestricted cash reserves equaled 89 days cash on hand (DCOH) in fiscal 2013, but projections provided by ACA based on reasonable assumptions point to improved DCOH to over 300 by fiscal 2015.

Relatively stable student enrollment, a wait list that has been growing annually on average since 2009, and good student retention of over 96%.

No debt service reserve fund (DSRF) for the series 2014 bonds.

The academy's good state accountability performance ratings over the past four years, and "Above Standard Achievement" Financial Integrity Rating System of Texas financial ratings from TEA in fiscal years 2011 through 2013.

Strong state oversight of charter schools in the state in general, including limitations on the number of charters granted and provisions for modifying, renewing and revoking school charters.

The rating is subject to change based on the following credit risks:

Changes in state funding levels, or statutory changes in state open-enrollment charter school funding.
Failure to realize projected enrollment growth trends, or changes in student retention rates.
Failure to meet forecast EBITDA margin levels.
Inability to maintain days operating cash above 45 days in fiscals 2015 through the life of the bonds, or adequate DSCR levels as required by the master trust indenture.
Financial deterioration due to unforeseen circumstances.
Significant changes in the assumed terms of the bonds to be issued, planned redemption of the series 2010 bonds, and/or release of the DSRF monies.
Revocation or non-renewal of the academy's charter.

Background on the Arlington Classics Academy

ACA was founded by a group of parents who wanted their children's education to focus on a classical education. The vision of the academy is to be an educational institution of academic excellence that provides a college preparatory liberal arts curriculum delivered through a classical style of instruction. ACA's mission is to equip its students with a comprehensive education, including a special focus on Western civilization. Students are expected to develop a commanding knowledge of the origins of their liberty and the ability to sustain it through moral leadership. The academy aims to accomplish this through a high level of academic instruction and high behavioral expectations.

The academy currently operates open-enrollment schools at two separate locations in the cities of Arlington, Texas (Bowen Campus, or Intermediate & Middle School Campus) and Dalworthington Gardens, Texas (Arkansas Campus, or Primary School Campus). ACA operates under the laws of the state pursuant to a charter that became effective on October 14, 1998 and that has been renewed three times, most recently for a period of ten years through July 31, 2023. The academy has been in operation for 15 years and serves students in grades kindergarten through 8. Approximately, 17% of the students enrolled in ACA are classified as economically disadvantaged. The academy serves students within the boundaries of Arlington, Texas and has a combined roughly 1,290 students currently enrolled (as of fiscal 2014).

All of ACA's teachers have a traditional teacher certification through the Texas Education Agency (TEA), and all of the academy's core subject curriculum-based instruction teachers also meet the federal "highly qualified" standards. ACA was ranked "Exemplary" by the TEA for school years 2007, 2008, 2009, 2010 and 2011 and received several Gold Performance acknowledgements for student test scores. During the 2012 school year, no state accountability ratings were issued as a new assessment program was being rolled out, but the ratings were carried over from the prior year. For the 2013 school year, under the new State of Texas Assessments of Academic Readiness (STARR) accountability system, ACA achieved the highest ranking of "Met Standard," and received distinctions in Reading and Math at its Middle and Intermediate campuses.

The academy received "Above Standard Achievement" FIRST financial ratings from TEA for fiscal years 2011 through 2013. A

"Satisfactory" rating or better entitles a charter school to automatic renewal of its charter, unless the charter holder commits a material violation of its charter. The purpose of the financial accountability rating system is to ensure that open-enrollment charter schools are held accountable for the quality of their financial management practices and achieve improved performance in the management of their financial resources. The FIRST ratings are determined by TEA and take the following into account:

Certain critical indicators
Fiscal responsibility and data quality
Budgeting
Personnel
Cash management

Finances

ACA's EBITDA margins declined from 18% in fiscal 2010 to 0.4% in fiscal 2011; furthermore, the DSCR dropped below 1.0x in fiscals 2011 and 2012. The decline in the EBITDA margin was driven by a 32% increase in per student expenses that were not met with an equitable increase in operating revenues in the same year (revenues increased by 8% from the prior year). Additional, unanticipated costs from doubling the school's size led to the low EBITDA margins for the year. ACA has new processes and procedures in place and has hired a new Business Services Director, which together will help to ensure financial performance remains satisfactory going forward.

The decline in the DSCR in fiscal 2012 was driven by continued increased working capital requirements linked to the school expansion, combined with a 6% decline in state program revenues per student from the prior year stemming from statewide budget cuts. Audited fiscal 2013 results point to a DSCR of 1.4x for the year, and HR Ratings notes that the DSCR as calculated per the legal provisions based on net revenues is higher at an estimated 1.6x. State funding to date has come in relatively in line with fiscal 2014 budgeted estimates, which indicates that DSCR will come in at 1.5x for the year.

HR Ratings notes that financial flexibility is limited as future revenues are primarily dependent on state per student funding, and the academy's projected enrollment growth of an albeit reasonable 7%, on average annually, from 1,286 students in the 2014 to 2015 school year to 1,675 students in the 2017 to 2018 school year. Nevertheless, based on model results as discussed below, financial performance is expected to remain satisfactory under HR Ratings' base case scenario.

Our projections (found in the appendices at the end of this report) assume the EBITDA margin remains healthy at over 19% in all years of the forecast period. With much of the financial information already in for the current fiscal year (that ended on August 31), the EBITDA margin is projected to come in at 23% for fiscal 2014. Even under a stress case scenario, EBITDA margins remain above 14% in all years of the forecast period. Thus, it is our view that margins should remain healthy, and steady over time.

The academy is highly dependent on state funding sources with state revenues consistently accounting for over 90% of ACA's total revenues from fiscals 2010 through 2013. Thus, legislative changes as it pertains to charter school funding, or funding cuts as proven during the most recent recession, could significantly impact the academy's financial performance.

ACA's enrollment doubled from fiscal 2011 to 2012, helping to lower the academy's spending per student and boost EBITDA margins back up to 20% for the year. Program services spending per student declined by 19% in fiscal 2012 to $4,474 from $5,503 in fiscal 2011. As revenue constraints continued, ACA was able to keep expenses at nearly the same level ($4,451) in fiscal 2013.

To provide some financial cushion, unrestricted cash reserves are anticipated to increase over time as shown in our forecasts. This will allow the academy to be better able to absorb any budgetary shocks. Furthermore, our free cash flow projections conservatively assume capital expenditures for rehabilitation and repair (or maintenance capex) are $300,000 per year. This suggests that our DSCR measures are somewhat conservative and give greater credibility to the rating.

Appendix 1 (Base Case Scenario)

Appendix 2 (Stress Case Scenario)

The rating assigned by HR Ratings de México, S.A. de C.V. to the entity, issuer and/or issue is based upon the analysis performed under a base case and stress case scenario, in accordance with the following methodology(ies) established by said rating agency:

Rating Methodology for Charter Schools Credit Risk Evaluation, April 7, 2014
Corporates Methodology, May 2014

For more information with respect to these methodologies, please consult our website: www.hrratings.com/en/methodology

Additional Information
Previous Rating N.A.
Date of the last Rating Action N.A.
Period of financial information used to assign the current ratingYearly data from 2008-2009 School Year through 2013-2014 School Year.
Principal sources of information utilized, including third partiesInformation provided by Arlington Classics Academic, the National Alliance for Public Charter Schools and the Census Bureau
Ratings assigned by other rating agencies that were used by HR Ratings (if so).N.A.
Mechanisms to align incentives between the issuer, administrator, and guarantor
HR Ratings considered when assigning the ratings or providing a follow up, the existence of mechanisms to align incentives between the issuer, administrator and guarantor and any possible bond holder (if so). N.A.

The rating was solicited by the entity or issuer, or on its behalf, and therefore, HR Ratings has received the corresponding fees for the rating services provided.

The following information can be found on our website at www.hrratings.com: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, and (iii) the procedure and process of voting on our Analysis Committee.

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Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default, which we define as the inability or unwillingness to satisfy the contractually stipulated payment terms of an obligation, such that creditors and/or bondholders are forced to take action in order to recover their investment or to restructure the debt due to a situation of stress faced by the debtor. Without disregard to the aforementioned point, in order to validate our ratings, our methodologies consider stress scenarios as a complement to the analysis derived from a base case scenario.

The rating fee that HR Ratings receives from issuers generally ranges from $1,000 to $1,000,000 USD (or the foreign currency equivalent) per issue. In some instances, HR Ratings will rate all or some of the issues of a particular issuer for an annual fee. It is estimated that the annual fees range from $5,000 to $2,000,00 USD (or the foreign currency equivalent).

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