FitchRatings

Infrastructure
& Project Finance
Sports
Global

Sports Facilities, Leagues and Teams Rating Criteria

Sector-Specific

Scope

This criteria report describes Fitch Ratings' approach to assigning and maintaining ratings for debt secured by revenues from three different types of professional sports enterprises globally: sports facilities, sports leagues, and sports franchises and team-level debt.

Fitch's stadium and arena (facilities) criteria includes facilities utilized by major U.S. sports leagues, including the National Football League (NFL), Major League Baseball (MLB), the National Basketball Association (NBA), the National Hockey League (NHL) and Major League Soccer (MLS), as well as tennis, golf, horse racing tracks and European football.

The security for professional sports leagues debt is primarily national television contracts. The primary security for sports facilities ratings typically includes game-day and season ticket sales; club seats; luxury suites; sponsorship and advertising agreements; naming rights; concessions; and parking and novelties. Security for professional sports franchise debt can include team revenues, national and local media contracts, facility-generated revenues and other team-level revenues.

There are structural differences across certain regions, primarily European football, whereby the league structure is different from a revenue-sharing perspective and the risk of relegation and other tournament participation, such as Champions League, can have a material impact.

Key Rating Drivers

Completion Risk: Where applicable, Fitch evaluates risks that may cause the facility not to be completed on time, on budget and/or up to the performance standards assumed for the operating period credit profile.

League Business Model (Revenue Risk): Fitch analyzes the strength of the league; composition of league revenues; the quality of national television contracts; percentage of shared league revenues; player salary structure; popularity and historical support; and league oversight.

Franchise Strength (Revenue Risk): A team and facility's ability to generate cash flow derived from contractually obligated income (COI) includes demographic and service area analysis.

Facility Infrastructure Development and Renewal: Fitch considers a franchise's approach to capital rehabilitation, asset preservation and commitment to enhancing the fan experience.

National Television and Other League Revenues (Revenue Risk): Fitch's opinion relates to historical television viewership and future growth, and analysis of the strength of television contracts and the credit quality of the television broadcast partners.

League Initiatives and Growth Prospects: Fitch evaluates the history of league oversight and demonstrated involvement to grow the game and competition, including views on youth, collegiate and minor league development and league initiatives to grow the fan experience.

Debt Structure: Fitch analyzes the composition of payment terms, strength of covenants to support debt payment, adequacy of liquidity and limits on additional leverage.

Financial Profile: Fitch's evaluation of cash flow to support operating expenses and the resulting operating metrics on a historical and projected basis includes sensitivity analysis.

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This report updates and replaces *Sports Facilities, Leagues and Teams Rating Criteria* dated Dec. 1, 2020.

Applicable Criteria

Corporate Rating Criteria (October 2021)

Infrastructure and Project Finance Rating Criteria (August 2021)

Completion Risk Criteria (December 2020)

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Criteria Application

This criteria report should be read in conjunction with the *Infrastructure and Project Finance Rating Criteria* (Master Criteria), which details the overall approach to rating debt instruments where repayment is dependent on cash flows from the operation of standalone facilities. The rating levels discussed in the report relate to Fitch's international credit rating scale. Fitch will issue the equivalent rating within a country's scale for debt issuances in local markets that require national scale ratings. For projects with completion risk, please refer to the *Completion Risk Rating Criteria.*

Fitch's rating approach incorporates elements of both the corporate and project finance rating methodologies. Sports facility transactions are significantly influenced by credit quality of the anchor franchise(s) and the league in which the franchise(s) participates. Fitch undertakes an analysis of the anchor franchise(s) and an evaluation of league strength and economics as starting points for rating facility-related debt.

Facilities in stronger leagues with robust financial profiles, low leverage, and a history of solid fan and corporate support will tend to achieve high 'BBB' category credit ratings. Additionally, the ratings will rely more on the flexibility retained by management to respond to changing conditions. Ratings for facilities with weaker financial profiles, higher leverage, and/or in weaker leagues with relatively more volatile corporate and/or fan support will place more emphasis on the legal framework of the transaction and management's ability to prudently meet debt service obligations. These facilities will tend to be assigned 'BB' category ratings, depending on the specific rating factors of the transactions.

Ratings for such project debt are unlikely, but not precluded, to rise above the 'BBB' category due to the nature of the underlying industry risks, including the discretionary nature of sports revenues and potential fluctuations due to team performance or local, regional, national or global economic conditions and the single site of the facility.

Leaguewide borrowing facilities may achieve 'A' category ratings based on the structure of the league and overall leverage. Not all rating factors in this report may apply to each individual rating or rating action. Each specific rating action commentary or rating report will discuss those factors most relevant to the individual rating action.

Counterparty risk is a key aspect to infrastructure and project finance ratings and is a key theme throughout sports ratings. Counterparty ratings vary from national broadcast providers, to key counterparties at facilities providing sponsorships and advertising and naming rights agreements, to counterparties associated with long-term luxury seating products to the actual franchises playing in facilities. Fitch's *Infrastructure and Project Finance Rating Criteria* provides a greater overview of Fitch's approach to counterparty risk.

Key Rating Drivers Applicable to Each Sports Sector

	Completion Analysis	Revenue Risk: League Business Model	Revenue Risk: Franchise	Facility Infrastructure Development/ Renewal	Debt Structure	Revenue Risk: National Television and Other League Revenues	League Initiatives/ Growth Perspectives	Financial Profile
Facility Ratings	X	X	X	X	X			X
League Ratings		X			X	X	X	X
Franchise Ratings		X	X	X	X			X

X – Higher importance. X – Average importance. X – Lower importance.
Source: Fitch Ratings.

Global Key Rating Drivers for Sports Facilities

	Revenue Risk: League Business Model	Revenue Risk: Franchise	Facility Infrastructure Development/Renewal	Revenue Risk: National TV and Other League Revenues	League Initiatives/ Growth Perspectives
Description	• Characteristics of the league revenues and framework.	• Stability and predictability of the franchise's revenues and resiliency.	• Condition of the facility and approach to maintaining the facility.	• Stability and predictability of the league's revenues and resiliency.	• Future predictability for fan and corporate demand for content.
Stronger	• Leagues with a high diversity of media revenues and percentage of shared revenues. • Strong ability to sell media rights domestically and internationally. • Salary structures that create competition and balance and promote fiscal stability. • Strong fan and corporate support in stress years and significant growth potential. • Strong ability for the league to continue to develop its business model. • Clear and conservative league oversight and debt policies. • For Europe: promotion/relegation structure which increases fan interest.	• Franchises with strong fan and corporate support in stress years. • Significant levels of diverse, contractually obligated income. • Strong service area. • Prudent fiscal management of player costs and other expenses. • High level of ownership involvement in operations. • Noteworthy in regard to growth and recognition of the sport.	• New facility. • Clear and defined capital expenditure set-asides for annual and near- to medium-term projects. • Strong financial flexibility to fund rehabilitation and improvements to meet fan and corporate partners' demands. • Strong management that understands future sports facility trends and is proactive in maintaining the fan experience. • Clear and defined demonstrated history of growing fan base and initiatives. • Team managed facility.	• Strong historical viewership levels and stable/growing trends. • Long-dated / staggered / diverse national TV contracts. • Strong, investment-grade TV partners. • Leagues with higher percentage of league-level TV contracts. • Other strong contractually obligated league sponsorship and/or advertising contracts or other sources of income.	• Strong league oversight and league initiatives in franchise facilities. • Strong involvement in youth, collegiate and minor leagues. • Strong league involvement to grow the fan experience. • Strong growth prospects for domestic fan and corporate base. • Strong growth prospects for international fan and corporate base.
Midrange	• Leagues with moderate levels of shared revenues. • Some ability to sell media rights domestically and internationally. • Liberal player salary structures with some elements that promote competition and fiscal stability. • Stable fan and corporate support in stress years and growth potential. • Ability of league to continue to grow is reducing. • Some league oversight in franchise matters and a fiscally moderate debt policy.	• Franchises with stable, but uncertain fan and corporate support in stress years. • Some diversity of contractually obligated income. • Moderate service area. • History of uncertain fiscal management of player costs and other expenses. • Sporadic levels of ownership involvement in operations and promoting the franchise.	• Moderately used facility. • Some capital expenditure set-asides for annual and near- to medium-term projects. • Limited financial flexibility to fund rehabilitation and improvements to meet fan and corporate partners' demands. • Solid management that has limited knowledge of future sports facility trends and has historically not been attuned to maintaining the fan experience.	• Solid and generally flat historical viewership levels. • Short-dated/ staggered/diverse national TV contracts. • Investment-grade TV partners. • Leagues with moderate percentage of league-level TV contracts. • Some other contractually obligated league sponsorship and/or advertising contracts or other sources of income.	• Solid league oversight and league initiatives in franchise facilities • Moderate involvement in youth, collegiate and minor leagues • Some league involvement to grow the fan experience • Robust growth prospects for domestic fan and corporate base • Robust growth prospects for international fan and corporate base

Source: Fitch Ratings.

Global Key Rating Drivers for Sports Facilities

	Revenue Risk: League Business Model	Revenue Risk: Franchise	Facility Infrastructure Development/Renewal	Revenue Risk: National TV and Other League Revenues	League Initiatives/ Growth Perspectives
Weaker	• Leagues with limited revenue sharing and teams that derive a high percentage of revenues locally. • Limited ability to sell media rights domestically and internationally. • · Player salary structure that does not promote competition and balance. • Unstable and uncertain fan and corporate support. • League has very limited ability to grow or compete with stronger leagues. • Minimal league oversight in franchises and liberal and undefined debt policies on member franchises. • For Europe: Fixed league structure	• Franchises with weak and uncertain fan and corporate support in good and stressful economic periods. • Limited diversity of contractually obligated income. • Weak service area. • Poor fiscal management of player costs and other expenses. • Limited levels of ownership involvement in operations and promoting the franchise.	• Old facility. • No defined capital expenditure set-asides for annual and near- to medium-term projects. • Extremely limited financial flexibility to fund rehabilitation and improvements to meet fan and corporate partners' demands. • Weak management that has not assessed the future needs of the facility or ongoing trends and is not concerned with maintaining the fan experience.	• Solid historical viewership levels • Annual contracts with a single partner • Below-investment-grade partners. • Leagues with lower percentage of league-level TV contracts • Noncontractual league sponsorship and/or advertising contracts or other sources of income	• Some league oversight and league initiatives in franchise facilities. • Limited involvement in youth, collegiate and minor leagues. • Moderate league involvement to grow the fan experience. • Limited growth prospects for domestic fan base. • Limited growth prospects for international fan and corporate base.
Relevant Metrics	• Nature of revenue generation and sharing. • Nature of TV contracts. • Popularity and historical support. • Performance during past stress periods. • League oversight of team financials and debt restrictions. • Player salary structure. • Growth perspectives.	• Historical strength of team support. • Revenue composition. • Ownership support in stress periods. • Historical renewal levels of key revenues. • MSA economic data.	• Asset quality. • Approach to the capital rehab and maintenance, including planning and funding. • Financial flexibility to address unforeseen capital needs. • Historical reinvestment levels. • Nature of the operations • Management's approach to maintaining and investing in the fan experience.	• TV viewership history. • Nature of TV contracts. • Historical renewal levels of key revenues. • Strength of TV partners. • Makeup of national and local television contracts. • Other pledged league revenues.	• Level of league involvement in team and facility operations. • League initiatives or involvement in youth, collegiate and minor league operations. • League involvement to grow the fan experience. • History of league initiatives. • Growth in domestic and/or international league revenues and forecast revenues.
Financial Profile Facilities	Debt Service is the key rating driver that considers metrics for liquidity, debt service coverage and leverage in the context of the overall risk profile determined by review of the other key rating drivers. A league and franchise with predominantly strong characteristics with a high percentage of contractually obligated income could be rated in the 'BBB' category, with debt service coverage ratios of 1.60x and higher in the rating case, while a league and franchise with midrange attributes and a strong collateral package would need higher debt service coverage ratios to achieve the same rating. Moreover, a project's rating may be constrained by a "weaker" assessment on a key rating driver notwithstanding coverage ratios of above 1.75x and higher. This is discussed more fully under *Financial Profile* on pages 13–16.				
Financial Profile Leagues	Debt Service is the key rating driver that considers metrics for liquidity, debt service coverage and leverage in the context of the overall risk profile determined by review of the other key rating drivers. Given the history of league programs and bullet style amortization, leverage is the most relevant metric. A league and franchise with predominantly strong characteristics, with a high percentage of contractually obligated income could be rated in the 'A' category with debt/EBITDA around 2.0x and lower in the rating case, while a league and franchise with midrange attributes and a strong collateral package would need lower leverage to achieve the same rating.				
Financial Profile Franchises	Debt Service is the key rating driver that considers metrics for liquidity, debt service coverage and leverage in the context of the overall risk profile determined by review of the other key rating drivers. A franchise in a league with predominantly strong characteristics, with a high percentage of contractually obligated income could be rated in the 'BBB' category with leverage around 4.0x and debt service coverage ratios of 1.75x and higher in the rating case, while a league and franchise with midrange attributes and a strong collateral package would need lower leverage and higher debt service coverage ratios to achieve the same rating. Moreover, a project's rating may be constrained by a "weaker" assessment on a key rating driver notwithstanding coverage ratios of above 1.75x and higher.				
Completion	When present, this key risk factor is assessed using the analytical framework described generally in this report and in more detail in Fitch's *Completion Risk Rating Criteria*. The framework is used to derive the maximum possible rating during construction phase, based on complexity and scale, contractors and implementation plan, ability to replace contractor, and core contractual terms, as well as liquidity available to support a project in case of contractor default. For more information, refer to the *Completion Risk Rating Criteria*.				

Source: Fitch Ratings.

Structure and Information

Ownership and Sponsors

In sports facility transactions, the debt-issuing entity is typically a newly formed special-purpose vehicle (SPV). Fitch can conclude that a bankruptcy filing by the owner or the team will not necessarily lead to an interruption of cash flow available to pay project debt if the SPV is truly separate, with separate audited financial statements, supporting legal opinions, and no franchise or ownership guarantees.

In Fitch's opinion, it is highly unlikely a professional sports franchise bankruptcy would cease operations and liquidate the asset. Fitch's opinion is supported by a number of factors, including the unique trophy asset characteristics of professional sports franchises, the prestige associated with owning a sports franchise given the scarcity of the asset base, high barriers to entry, the exclusive ability to operate within a professional sports league, and the professional league's vested interest in protecting franchises and their value.

Timely payment of debt service depends entirely on the continued generation of facility revenues derived from demand for the sport and team. It has been demonstrated that even during a bankruptcy, a franchise can generate cash flow from the facility from luxury suites, club seats/amenities, sponsorship and advertising inventory, and other facility-related revenues. Fitch expects a team will continue to play its games in the facility even during a bankruptcy.

Use of External Reports

The primary consultant report Fitch evaluates as part of its process to rate new facility debt is a feasibility study that addresses demand for stadium revenues including luxury suites and club seats, sponsorship and advertising contracts, naming rights and other facility-generated revenues. The report also contextualizes historical and forecast sponsorship and advertising agreements, other revenue and expense projections, local and regional demographic information, and competing sports and entertainment outlets and other comparable facilities.

Fitch will evaluate this consultant report as the basis for base and rating case projections as described below, and also assess historical actual operating information provided by the team from its previous facility. Both projected and historical financial information will be analyzed in the context of the consultant's — and Fitch's internal analysts' — assessment of the economic and demographic characteristics of the surrounding area. Fitch will also consider the consultant's view of the impact of additional entertainment options and overall demand for new facility products in arriving at a rating.

Fitch expects to receive a third-party construction/independent engineer report for review in cases where a transaction involves substantial construction risk. Fitch may stress completion delays further to the extent the engineer acknowledges high-risk, highly technical or new elements of the project.

Revenue Risk: League Business Model

Professional sports league analysis is the backbone for all sports-related transactions. The fundamental makeup, economic model and historical support are the most significant rating factors in assessing the credit quality for the league, as these are the primary factors that drive competitive balance, financial viability, and long-term individual and corporate interest.

Fitch generally views a league's involvement in their franchises' operations as a fundamental strength. Demonstrated examples of U.S. professional sports league support to aid or assist distressed franchises supports Fitch's opinion that leagues have a vested interest in protecting their franchises and franchises will continue to operate during distressed periods and bankruptcy. There are a number of historical cases in which a sports franchise faced financial distress due to on- or off-field issues, and in rare cases bankruptcy, yet continued to operate a facility and meet facility-related debt service obligations.

The history and depth of a sports league, future stability, and prospects for growth both within a country and internationally, drive the rating of a league. League-level initiatives, programs and goals geared toward this are key. League offices are established in each sport to represent the interests of franchise owners, who elect a commissioner to oversee and interpret league policy.

The commissioner is typically given the mandate to be the final arbiter in disputes among franchises and ensure competitive integrity is being provided to consumers. Business is conducted via various ownership committees for purposes such as national broadcast contracts, business affairs, game rules and safety, labor relations, revenue sharing, transfer of ownership, expansion and financial policy.

National television contracts are a significant source of revenue for franchises and serve as the primary source of revenues for leagues. The ability to renew television contracts is driven by viewership, popularity and competition from other entertainment and media platforms. Additional shared revenues, such as pooled suite, club seat and ticket income or other revenue sharing mechanisms provide revenue diversity at the league level and some level of revenue certainty and parity across franchises depending on the league economic structure.

Fitch analyzes the media counterparty rating and structure of the agreement and terms when assessing the strength of the media contract. A key part of Fitch's analysis is to consider how easy it would be to replace the media counterparty in case they did not perform adequately or became insolvent. Media counterparties, whom the league has a dependency on, may constrain the debt rating if the media contract is viewed as above market value from an unproven counterparty. Conversely, where media counterparties have a proven track record, and there exist a robust group of replacement media providers, the rating can move above the rating of the counterparties if financial metrics justify. It should be noted that the major sports leagues globally have multiple investment-grade media partners delivering league-level content, providing revenue diversity.

One of the major differentiating factors between the major U.S. sports leagues is the allocation of revenues among member teams. The NFL equitably distributes a significantly larger portion of total leaguewide revenues, thereby placing all franchises on more level fiscal terms, and for the most part, this translates into greater on-field competition. A lower shared percentage requires greater scrutiny on a franchise's local revenues from a ratings perspective. These sources include gate receipts, local broadcasting rights and stadium-related revenue, and tie more closely to market demographics and team performance. These factors have the ability to cause a larger disparity between the highest and lowest revenue-generating teams.

The various salary structures across existing professional leagues around the world can have a substantial effect on the credit ratings of those leagues. Salary structures, ranging from a hard salary cap to a soft salary cap to no salary cap, exist in professional sports today. A hard salary cap establishes a maximum for player payroll and often a floor. The player payroll may be adjusted upward or downward based on the index to which it is linked, typically some aspect of league revenues. For example, a hard salary cap may be linked to a percentage of the national television broadcast rights fees or a percentage of total league-generated revenues. Essentially, the player payroll and a team's share of the national media contracts and other revenue agreements are adjusted in tandem and provide cost certainty.

A soft salary cap may generally have the same structure as a hard salary cap, with exceptions for veteran or key franchise players. Exceeding the soft salary cap requires a franchise to pay into a league's central fund for distribution to the other franchises in the league. The absence of a salary cap (i.e. an owner may choose to spend as much or as little on a franchise payroll) is viewed as a weakness to a league because there is less expense certainty. Additionally, higher talent levels lured by larger payrolls can create franchise disparity and risk the long-term competitive nature of the league.

A league's response to distressed franchises or ownership groups can affect the timeliness of debt service payments and/or franchise value. The ability to assume the operations of mismanaged organizations allows the league to maintain a team's competitive integrity and enables an efficient transfer to a new ownership group. The team can also avoid the adverse consequences of bankruptcy proceedings. Consideration is given to the process by which potential owners are screened by the league. The efficacy of league-imposed prerequisites for prospective owners provides a level of comfort for a team's long-term viability. General areas of focus include the business track record of the controlling owner, the candidate's financial profile and financing arrangements for the acquisition.

Industry Risks

Sports Entertainment Industry Risks

Fitch's universe of sports-related ratings is exposed to national and global economic conditions given the discretionary nature of spending for personal and business entertainment. Renewal risks are assessed as part of all sports ratings, including renewals of national and local media agreements; franchise sponsorships and advertising partnerships; and key revenue agreements at facilities, including sponsorship and advertising agreements, luxury seating products, and, to a lesser extent, long-term concession and naming rights agreements, if applicable. Fitch expects increased pressure on individual and corporate discretionary spending levels and renewal rates of key sponsorship and advertising agreements during weakened economic conditions. A significant history of support exists for the four professional sports leagues in the U.S. and for global soccer, tennis, golf and other sports. However; there is no guarantee that future attendance, corporate support and television viewership will remain at historical levels.

The likelihood of significant loss of fan interest or product obsolescence and a large, stable national/international market are also key credit considerations. Fitch assesses the long-term viability of a sport by monitoring youth and collegiate participation levels to international interest. The breadth and depth of the fan base and the duration of individual and corporate sponsorship and advertising relationships are also important. Competition from other entertainment outlets and/or other sports franchise(s) in a marketplace is also considered. Fitch looks at the competitive environment and recognizes any advantages a franchise maintains due to its historic brand or overarching league popularity.

Work-Stoppage Risks

Work-stoppage risks are present in all sports-related transactions and give rise to both short- and long-term implications. Adequate short-term protection is typically afforded to bondholders as certain security features are usually in place to provide for timely debt service payments. Specifically, some revenue agreements, which form the basis for the COI supporting debt service payments, require payment even if all games are not played because of a work stoppage. In addition, transactions include certain debt service reserve funds that can be drawn down in the event funds are needed to pay debt service. These funds need to be replenished over the remaining life of the contract.

A level of reserves to cover a minimum one year of principal and interest obligations is a typical structural feature to achieve investment-grade ratings. Fitch generally views a work stoppage in excess of one season in professional sports as a highly unlikely event. Both owners and players are motivated to return to play to avoid circumstances, such as fan alienation or make-whole payments back to season ticket holders and TV networks. The historical track record of U.S. leagues indicates generally leagues and player unions have ultimately settled labor disputes and resumed play without severely affecting long-term fan support.

Long-term labor unrest in professional sports can potentially alienate the sport's fan base. It also may negatively affect future renewals of key revenue sources, such as club seats, luxury suites and sponsorship agreements, among others. The depth of the sport's fan base and history of corporate support are key factors for Fitch's analysis of revenues over the debt maturity.

Revenue Risk: Franchise

Fitch will review the financial profile of a franchise as part of a facility rating, but does not explicitly derive a rating for the franchise playing in the facility, unless the facility debt cannot be separated from the franchise bankruptcy. Fitch will analyze the consolidated franchise and facility debt to assess additional financial metrics of the consolidated enterprise as an input into the overall franchise strength.

Fitch assesses the long-term history, support and strength of a franchise, including fan support through attendance and television/digital viewership levels, levels of support during economic downturns and poor team performance, and management's ability to adjust to changing conditions. Fitch's analysis of local demographic conditions and the depth of the corporate market are also fundamental.

Fitch considers renewal risk of national media contracts to be among the most important factors in assessing the creditworthiness of sports franchises. Any adverse change in these contracts would likely have a material effect on a team's overall credit profile because broadcasting rights' fees provide a substantial portion of team revenues. Fitch notes there would likely be a subsequent reduction in a franchise's largest expense — player costs — in the event of a reduction in national media contracts. However, there could be a period where operations become strained in the event guaranteed contracts exist.

COI primarily includes national and local media contracts, local sponsorship agreements and luxury suite rentals. Certain revenue streams are sometimes referred to as "highly probable." For example, season ticket sales that demonstrated consistent renewals over a long period may be considered highly probable. Game-day revenues, such as game-day ticket sales, parking, concessions and merchandise, can be more volatile depending on the league and franchise.

Management's ability to control expenses and maintain financial flexibility while growing fan interest and the brand is essential. An ownership group that is heavily involved in team operations and noteworthy in the sport is key for the long-term viability of the franchise.

Volume and Price Risk

The nature of sports facilities varies greatly, and the range of seat products and other amenities, as well as sponsorship and advertising opportunities, varies across facility type and location. The exposure to volume and price risk for a particular franchise facility financing will depend substantially on the extent to which the pledge is backed by COI versus more volatile game-day revenues. Volume and price risk varies significantly depending on several factors, such as the team's performance, the type of sport and potential long-term changes to discretionary entertainment spending. The ability to raise rates depends not only on sport and team performance but also on the economic strength of the asset; the perceived value a fan receives and the general health of the local, regional and national economy.

Risk transfer to counterparties is also central theme of sports facilities. Where cash flows of the issuer are dependent on the financial performance of a single large counterparty, the issuer's rating may be constrained. In practice, facility ratings usually have a diverse security pledge whereby the credit quality of numerous counterparts is still a factor but is not viewed as a constraining factor.

Premium Seating

For luxury suites and club seats, the demand and price are based on a combination of economic conditions in the local service area, historical franchise performance, fan support, and corporate presence in the surrounding MSA in combination with the overall inventory of suites and club seats. Fitch generally assumes the payment schedule according to the initial terms of the agreement for premium seating contracts and stresses the renewal rates based on historical renewal levels (at the team or comparable facilities) and local, regional and national economic conditions. Premium seating agreements range between three and 25 years. Fitch views staggered premium seating agreements, with even renewal levels in any given year, as stronger. This structure limits the amount of contract expirations after any one year and minimizes potential negative renewal results because of poor team performance or weak economic conditions.

Season Tickets

Season tickets and, to a greater extent, game-day gate receipts, comprise relatively more volatile revenue streams and their demand highly correlates to the league and franchise's current performance and to economic conditions, all of which may be factored into ticket prices. Season ticket agreements are short term, usually one year, and even though season tickets are paid in advance each year, this revenue stream may decrease substantially following a season of poor franchise performance.

In addition, refunds of season ticket revenues may occur because of league or franchise labor problems or other disruptions of play. Depending on the league, franchise and market, Fitch will apply various sensitivities to game-day tickets and season tickets. Fitch will consider historical game-day ticket sales and season ticket renewals rates along with historical price increases as input into future revenues against the backdrop of Fitch's opinion related to league and franchise growth attributes.

Personal Seat Licenses (PSLs)

PSLs provide the right to purchase a ticket for a predetermined period and are traditionally used by very strong teams in high demand. Typically, PSL contracts contain stipulations that if season tickets are not purchased, the team or operator has the right to take back the PSL and resell it. In addition, individuals can generally sell their PSL over time, though there may be initial periods during which PSLs cannot be resold. The value may rise or fall depending on the popularity of the sport, the team's performance and economic conditions.

Naming Rights and Sponsorships

Naming rights agreements may include a substantial upfront payment or annual payments. Sponsorship and advertising revenue agreements can vary in price, depending on the amount of space, promotional ties and term. Some facilities opt for a fewer number of founding partner agreements, typically five to 10 large corporations with long seven- to 10-year terms and significant payments. Other facilities opt for a greater amount of sponsorship and advertising partners. Fitch will analyze the overall diversity and credit quality of naming rights and sponsorship partners as part of its analysis.

Concession Revenues

The guaranteed revenue under a facility's concession agreement stems from calculations that incorporate fan attendance levels and varying percentages of gross annual receipts net of sales taxes. Fitch analyzes historical concession revenue performance to determine the likelihood of payment of the guaranteed portion of the concession revenue stream, and potential variable revenues above thresholds in some cases. The strength of the guaranteed revenue stream is also based on the counterparty's credit rating.

Game-Day Revenues

Nonguaranteed concessions, parking and novelties are viewed as a weaker attribute. Fitch will analyze game-day revenues as pledged revenues to bondholders to the extent this cash flow source has a strong demonstrable history viewed as sustainable.

Debt Structure

Fitch focuses on how well a proposed capital structure is matched to the characteristics of the project being analyzed and the margin of safety provided to lenders via financial covenants and leverage limitations. The analysis of sports projects, leagues and franchise debt follows Fitch's approach as outlined in the *Infrastructure and Project Finance Rating Criteria*.

Financial Profile

Fitch views delaying debt amortization, in the context of finite asset or concession lives, as increasing risk. As a result, Fitch considers transactions that exhibit generally increasing debt service coverage ratio (DSCR) profiles and/or rapidly declining leverage within the asset or concession life under the Fitch rating case as stronger. Fitch will assess a largely flat DSCR profile and/or the ability to reduce leverage within the asset/concession life as midrange. A weaker assessment would result from a generally decreasing DSCR profile or increasing leverage under the Fitch rating case within the asset/concession life or where Fitch expects debt to remain outstanding at the end of the asset or concession life.

Key Rating Factors for Sports Facilities

Facility Types

Single-Anchor Stadiums

These facilities typically represent MLB and NFL facilities in the U.S. and European football facilities. These larger stadiums (40,000–100,000 seats) have fewer "other" events, such as concerts and shows, and college or high school championship events, which typically do not factor into the rating analysis.

Single-Anchor or Multi-Anchor Arenas

Typically built to hold between 15,000 and 20,000 fans, these arenas house NBA and NHL franchises in the U.S. These arenas host between 100 and 300 events annually, depending on the number of anchor tenants, including other events such as concerts, shows, local and regional sports events, and conferences. Other event revenues may be an important aspect of facility revenues.

Other Facilities

Depending on the nature of the tenant and sport, Fitch can rate a facility with a long track record of attendance and national or global interest, and that is supported by facility revenues and television contracts. Examples include horse racing tracks, tennis facilities, golf-related properties, minor league facilities with smaller capacity, and soccer or European football facilities.

Completion Risk

A facility's ownership group is particularly critical during construction due to the considerable completion period associated with sports facilities. Construction generally is expected to take between two to three years, depending on the complexity of the facility. In Fitch's view, ownership groups have a strong incentive to complete the project and commence operations, even in the event of cost overruns.

The length of the construction period and the high cost and, in some circumstances, complexity of sports facilities heightens the possibility of delays and cost overruns, especially with new technological or construction elements such as retractable roofs. To fully assess the risks associated with construction, Fitch will review an independent engineers report to identify strengths, risks and mitigants to the project and the supporting construction security package, as well as other factors related to completion. Fitch's approach to completion risk is fully detailed in the *Completion Risk Rating Criteria*.

Operations Risk

Operating a sports facility is a relatively straightforward undertaking that covers maintenance of the area of play, revenue collection, concession areas for patrons and security. Nevertheless, new technology and new facilities are likely to have higher costs than a franchise's prior facility.

Basic maintenance of the facility and concourses and lifecycle repairs, such as upkeep of common areas and major rehabilitation, are keys to earning strong fan interest and support. Frequent technological updates and amenity updates are also vital aspects in maintaining the fan experience and support. Fitch will evaluate management's ability and plans to fund both maintenance and new amenities, and the extent to which these needs are funded from excess cash flows prior to equity distribution. Should projects be funded from the issuance of additional debt, Fitch would expect to see new incremental revenue opportunities to mitigate the effects of increasing leverage and maintain healthy financial ratios.

Operator

Generally, three types of facility operation arrangements exist for sports facilities: the team as operator, a facility company as operator or a public agency (e.g. a local sports authority) as operator. Fitch will focus on the operator's experience in providing a top-quality facility that will attract fans while also maintaining required levels of safety standards. To assess the likelihood that such operator mandates are fulfilled, Fitch will evaluate the plans and experience of the operator compared with those of similar facilities. Clear objectives and responsibilities should be well defined for all parties managing the facility to avoid any conflicts.

Costs

Annual O&M expenses, including major maintenance and rehabilitation, usually run between 20% and 50% of gross revenue. These costs tend to vary across asset type, location and use. Fitch observed that while operating profiles vary, annual operating costs consistently increase at or above inflationary levels. However, some costs are variable, such as expenses associated with other events or sales employees. Over time, increased costs have the ability to deteriorate cash flow available for debt service (CFADS) should facility revenues track below inflation growth due to team or league performance. This risk is mitigated at facilities in stronger demographic areas, with more robust historical team support, and where revenues have increased at levels above inflation.

Fitch will evaluate the O&M expense profile regardless of the ownership structure or project status (operating or new development), taking into consideration other similar operating facilities. Unrealistic projections for O&M costs add risk, especially in the case of low estimates for major rehabilitation, because deferred maintenance shortens the asset life and may result in more leverage over time. Fitch may view cost risk as elevated if the asset has a history of deferring or not funding facility preservation or if management's commitment in continuing to enhance the overall fan experience is unclear or undemonstrated.

Longer term operating contracts can provide more cost certainty, but do not allow the operator to take advantage of market efficiencies that may develop over time. Shorter contracts of five to seven years provide the operator with the opportunity to renegotiate for potentially lower costs and take advantage of some upside potential. However, this approach exposes lenders to the possibility that initial cost projections were too low. Fitch believes profit motive provides teams or facility companies an incentive to keep the facility in reputable operating condition and to maximize the fan experience. Fitch may determine that no adjustment to the cost profile is necessary in cases where a long-term operating contract with a highly experienced and creditworthy counterparty exists.

Team Nonrelocation

Team nonrelocation agreements and covenants are protective features traditionally provided in all sports facility financing structures, the lack of which would be viewed as a weaker attribute by Fitch. These agreements protect the economic value of the project by legally requiring the teams to play their games at the facility, thereby mitigating the risk that there will be insufficient revenues due to a team's departure. Some nonrelocation agreements provide for liquidated damages in the event of a nonrelocation violation. Fitch views a league's role in enforcing nonrelocation agreements and/or ensuring bondholders are paid in full prior to the franchise's relocation as a key mitigant. Debt typically matures within the term of the nonrelocation agreement, similar to the lease agreement term. A lease agreement between the franchise and the land owner (typically a local or state entity) is a necessary component in all sports facility transactions.

Infrastructure Renewal and Development

Beyond the construction phase, the ownership's commitment to rehabilitation to maintain the fan experience throughout the debt maturity is a stronger attribute. The long-lived nature of these assets and the maintenance discipline necessary to provide a consistently high level of operating performance to retain fans and corporate sponsors requires the presence of an experienced ownership group and operator. Ownership and management's recognition of the evolving nature of the sports experience could be critical for the success of the project, especially due to more continued growth and innovations associated with televisions and digital media that can be consumed outside the game-day experience.

Fitch views these assets, if properly maintained, as having very long economic lives, but needing frequent upgrades to maintain desirability and economic vitality.

Necessary rehabilitation and improvements to maintain fan interest and the overall fan experience are keys to the long-term viability of a sports facility. Team and facility management must be attuned to changes and/or technological improvements and, more importantly, should retain the financial flexibly to make aforementioned enhancements. A stronger attribute is the timely set-aside of reserves in advance of future capital spending. Reinvestment cycles may be more intense and more frequent than those of other infrastructure assets given the need to maintain attractiveness relative to other entertainment options.

Financial Profile

In addition to qualitative factors described previously, Fitch evaluates a project's ability to service debt in conjunction with maintaining healthy financial metrics under base and rating case scenarios in determining a rating. Fitch will also consider the specifics of the project on its own and in relation to its peers when determining the rating outcome.

In analyzing the strength of the balance sheet, Fitch emphasizes liquidity and leverage. An important part of its analysis focuses on unrestricted liquidity given potential volatility associated revenues due to team performance, economic conditions or other macro events. Fitch does not include legally restricted accounts, such as bond proceeds, debt service reserve funds or construction accounts in its measure of unrestricted liquidity.

Metrics

Fitch may review the following metrics when determining ratings for sports facility projects:

- Annual DSCRs and coverage of maximum annual debt service;
- Loan life coverage ratios;
- Gross debt/EBITDA and net debt/EBITDA; (net debt only includes debt service reserve funds)
- Break-even analyses.

For further information on the calculation of these metrics, refer to *Appendix B – Definition of Financial Metrics* in Fitch's *Infrastructure and Project Finance Rating Criteria*.

Base Case, Rating Case and Sensitivities

In its rating process, Fitch will evaluate a range of economic scenarios that a sports facility will typically encounter in the business cycle. The base case represents Fitch's view of the economic environment reasonably anticipated to exist in the relevant forecast period. Base case revenue, volume and cost assumptions, together with planned capital improvement expenditures and additional capital, are developed based on Fitch's review of historical performance and the franchise's or consultant's forecast. Fitch's approach to rating sports facilities involves developing base and rating scenarios that are combined cases (i.e. include cost/completion derived from the *Completion Risk Rating Criteria*, operating, revenue and financial stresses simultaneously).

For preconstruction or projects in construction that are refinancing a construction loan, Fitch will assess the business plan in combination with a third-party consulting feasibility report for facility-related sales, including suites, club seats, naming rights, sponsorship and advertising contracts, concessions agreements and other key revenues, and compare them with other Fitch-rated operating facilities. Base and rating case assumptions will be based on the league, market and proposed price points for the aforementioned revenues compared with similar markets or other markets Fitch views as peers.

A rating case would apply additional price sensitivities to the various revenue streams to analyze the robustness of the financial profile. Fitch will also take into consideration attendance figures at the franchise's prior facility, long-term renewals rates associated with key revenue streams and longer term growth rates experienced at a prior facility as a rating factor into a rating case. Renewal rates (occupancy and price) for key revenues will be derived from Fitch's views of the league, franchise, local market demographics and case-specific variables, as necessary.

Forecast operating expenses at the new facility will also be compared with peer operating facilities to analyze the reasonableness of the opening-year figure and will be adjusted accordingly. Sensitivities to the operating expense profile for game-day expenses, utilities, stadium operations, security and other costs may be adjusted to compare equally with peer facilities.

For operating facilities, Fitch will analyze the existing inventory of pledged revenues and assess existing price points, future renewals and growth rates. Longer term renewal rates associated with suites, sponsorships and advertising, and other key revenues modeled in the rating stress will reflect Fitch's view of the league, local market, future demand, historical rates at a prior facility (if a new/newer facility) and other macroeconomic factors. For noncontractually obligated revenues, Fitch will look at historical attendance levels, especially during periods of lackluster team performance, as an input into game-day revenues derived from attendance.

Fitch believes, given its portfolio of rated transactions, revenues should, at a minimum, grow close to inflationary levels over the longer term. Short-term economic stresses due to economic cycles or severe changes to local economic conditions or team performance may be additional sensitivities applied to test the robustness of the overall financial strength of the facility. Operating expense growth varies by facility and location, but historically also tracked close to inflation. Fitch-monitored sports facilities demonstrated the ability to implement cost control measures and rates lower than inflation in some circumstances. Fitch will assess the facility's operating business plan to assess the appropriate base and rating case operating expense growth rates.

Sports facilities are unique assets within project finance, as they have standard renewal and replacement costs (heating/cooling systems, roof maintenance, painting, safety features), but also fan-experience expenditures, such as suite renovations (every 10–15 years), scoreboard enhancements with the latest technology, and non-essential enhancements to maintain fan interest and drive attendance. In Fitch's base and rating case scenarios, Fitch will assess levels of excess cash flow available after payment of operating expenses and debt service, as well as funding of any reserves to fund discretionary capital projects. Historical ownership commitment and equity is a key rating input into long-term renewal and replacement funding.

Break-even analyses will also be applied to facility ratings. Fitch will apply sensitivities to revenues to meet 1.0x coverage. Fitch may apply an annual decline on annual revenues to meet 1.0x in the last year of debt service or apply sensitivities to the rating case to meet 1.0x coverage on an annual basis, both including the use of reserves. The actual sensitivities to revenue will depend on the revenue streams. Fitch may assume vacancies in suites or declines in suite prices or nonrenewals of sponsorships and advertising contracts or lower prices points.

Indicative Characteristics for Investment-Grade Sports Facilities

	Fitch Base Case	Fitch Rating Case
Attendance	5- to 15-Year Historical Average	(Base Case) — (5%–25%)
Suite and Premium Seat Renewal Rates	CPI + (0bp–100bp)	CPI — (100bp–200bp)
Sponsorship and Advertising Revenues	5- to 15-Year Historical Average	(Base Case) — (50bp–100bp)
Other Revenues	5- to 10-Year Historical Average	(Base Case) — (50bp–100bp)
O&M Growth	5- to 10-Year Historical	Base Case Assumption
	Average Increase	Plus 1%–2%
Financial Ratios (x)		
Existing Facility		
COI DSCR	1.70–2.30	1.50–2.00
Total Revenue DSCR	**2.00–2.50**	**1.70–230**
New Facility		
COI DSCR	2.00–2.50	1.70–2.30
Total Revenue DSCR	**2.20–2.80**	**2.00–2.50**

COI – Contractually obligated income. DSCR – Debt service coverage ratio.
Source: Fitch Ratings.

Models

Fitch may use the following models in the analysis of sports sector credits: GIG AST Model, the Infrastructure and Project Finance Model (InForM), the Corporate Monitoring & Forecasting Model (COMFORT Model) and third-party models. The *Models* section in the *Infrastructure and Project Finance Rating Criteria* provides a description of these models.

Peer Review

Fitch first looks for a project within the same league and then with similar economic characteristics when reviewing an operational sports facility against its peers, comparing the overall leverage; distribution of seat products (type and length of contract); nature of concession agreements, sponsorships and advertising agreements; and naming rights. Fitch will test certain sensitivities based on local and regional economic inputs, franchise and league factors. Fitch will compare the operational phase, taking into consideration operating and maintenance costs. Financial metrics and dependence upon sustained growth will be evaluated in conjunction with the legal structure underpinning the debt.

Indicative 'BBB' Category Financial Performance for U.S. Sports Facilities

Facility	NFL	NFL	NFL	MLB	MLB	NBA	NBA	NBA/NHL	NBA/NHL
Status	Operational	Operational	Construction	Operational	Construction	Operational	Construction	Operational	Construction
Percentage COI (%)	95	80	50	75	50	80	60	100	70
Renewal Structure Risk (Staggered, Long-Dated, Diverse)	Low	Low	Moderate	Low	High	Low	Moderate	Low	High
Remaining Inventory (New Construction) (%)	N.A.	N.A.	40	N.A.	30	N.A.	30	N.A.	15
Operating Cost Risk	Low	Moderate	Moderate	Low	High	Low	Moderate	Low	High
Projected Coverage (x)									
Debt Service Coverage(10-Year Average Base Case)	3.0	2.3	1.9	2.4	2.3	2.4	2.5	2.7	2.1
Debt Service Coverage (10-Year Average Rating Case)	2.8	2.0	1.8	2.2	2.0	2.3	2.3	2.5	1.9
Net Debt to CFADS (10-Year Range — Base Case)	2.8–1.2	3.7–2.5	5.0–3.0	3.5–3.0	3.9–3.0	3.8–3.2	4.3–3.5	2.0–1.2	4.0–3.0
Net Debt to CFADS (10-Year Range — Rating Case)	3.0–1.4	3.9–2.8	5.5–3.5	3.7–2.9	4.1–3.3	4.2–3.6	4.6–4.0	2.2–1.4	4.4–3.7
Key Rating Drivers									
Completion	N.A.	N.A.	Midrange	N.A.	Midrange	N.A.	Midrange	N.A.	Midrange
League Strength (Revenue Risk)	Stronger	Stronger	Stronger	Midrange	Midrange	Midrange	Midrange	Midrange	Midrange
Franchise Strength (Revenue Risk)	Stronger	Midrange	Midrange	Stronger	Midrange	Midrange	Stronger	Stronger	Midrange
Infrastructure Renewal and Development	Stronger	Midrange	Stronger	Midrange	Stronger	Stronger	Stronger	Stronger	Midrange
Debt Structure	Stronger	Stronger	Midrange	Midrange	Midrange	Stronger	Stronger	Stronger	Midrange
Financial Analysis	Stronger	Stronger	Weaker	Midrange	Weaker	Midrange	Midrange	Midrange	Weaker
Comment:	20-year, fixed-rate amortizing debt with majority of long-term COI at 20 years. Strong historical franchise. Lower leverage.	25-year, fixed-rate debt with staggered renewals over 10–20 years. Prominent franchise in middle market.	Moderately complex construction completion. Significant revenue inventory sold to date, some pricing risk on remaining.	Stronger franchise in solid market but significant shorter term renewals of sponsorships. Robust coverage and financial flexibility.	Solid franchise in robust market, limited completion risks and limited pricing risks on remaining inventory. Solid projected DSCRs.	Strong historical operations with demonstrated history of renewals. High levels of reinvestment in arena. Robust coverage.	Strong market with limited risk to remaining inventory of suites and sponsorships. State of the art facility with robust coverage.	Multi-anchor facility with no competition for other events. Strong market and rapidly amortizing debt and low leverage.	Solid market with two midmarket teams with limited completion risk. Longer dated debt with 50% refinance in year 10.
Implied Rating	BBB+	BBB	BBB–	BBB	BBB–	BBB	BBB	BBB+	BBB–

COI – Contractually obligated income. CFADS – Cash flow available for debt service. N.A. – Not applicable. DSCR – Debt service coverage ratio.
Source: Fitch Ratings, MLB, NBA, NFL, NHL.

Rating Sports League Debt

This section reflects Fitch's assessment of the credit quality of league-sponsored borrowing programs secured by national television contracts, league-pooled revenues, other league revenues and, in some ratings, a pledge of the franchise. The Revenue Risk: League Business Model section combined with the Revenue Risk: National Television Contracts, League Initiatives and Growth Prospects and Debt Structure sections discuss the four key rating drivers for sports league ratings.

Leagues incorporating strong national television contracts; a strong salary structure; and a strong, diverse corporate sponsorship and advertising base with low leverage achieved the 'A' category. Additional 'A' category ratings reflect leagues that maintain an established favorable debt policy, implicit or explicit support to assist distressed franchises, a solid history of limited work stoppages, and robust covenants and legal provisions. Leagues that incorporate some of these key rating factors but have higher leverage may also achieve investment-grade ratings.

Revenue Risk: National Television Contracts

Fitch focuses on the credit quality of the television counterparty and its ability to pay, historical viewership levels, overall demand for sports content, and future expectations for renewal levels and demand. Live television sports content is highly coveted from the television partner's perspective, as it is generally viewed as less susceptible to digital video recording (DVR) and captures a highly desirable audience (e.g. 18- to 40-year-old males) that might not be as effectively gained in other areas on television. Fitch monitors trends across the sports media landscape including the growing shift to digital and mobile distribution.

As part of revenue risk, Fitch will evaluate the credit quality of the broadcast partner and their ability to make the payments under the contract. Fitch will further evaluate, if applicable, any performance standards within the contract to evaluate the strength of the contract. As addressed in the league business model section, the credit ratings of the television counterparties do not limit the potential ratings of the leaguewide borrowing programs, but rather comprise one input into the overall ratings. The historical and current demand and popularity, as well as the depth of rival broadcasters that bid on sports rights, offset the credit rating of the provider to some extent.

League Initiatives and Growth Prospects

The long-term viability of a sports league has a number of underlying fundamental factors, including the history of the sport, fan and corporate interest, and competition from other leagues and other entertainment. Fitch monitors youth development participation rates, domestically and internationally, and key statistics related to viewership and attendance as part of understanding the long-term growth prospects.

Domestic and international marketing objectives to reach new fans and corporate sponsors are also noted. Growing the fan experience is also essential to the long-term success of a league. Fan engagement for home viewing fans and facility fans is important.

League Debt Policies

Fitch views an established debt policy at the league level for franchise-related debt positively. One that caps a franchise's maximum debt to an established level and to a fixed asset value based on recent historical franchise sales is regarded more favorably than one that links maximum debt levels to a financial indicator, such as EBITDA. An EBITDA debt test provides a solid financial indicator, but can be more volatile on an annual basis.

The team-specific nature of the obligations and lack of a corporate (joint and several) obligation also add risk to the league facilities. Revenues flow into dedicated league central funds to meet debt obligations, but there could be an interruption in cash flows in the event of a bankruptcy of the participating franchise. Additional structural and legal protections may be built into the transaction depending on the league, such as league-level reserve funds or the sale of certain revenues to a bankruptcy-remote trust, that partially mitigate this risk.

Nevertheless, the credit quality of the participating teams is still important, and Fitch reviews each franchise's financial profile. Underlying financial performance may vary widely among participating franchises, depending on the league and disparities between locally generated revenues. However, Fitch's analysis focuses on the possible bankruptcy of a participating franchise and the potential for an interruption of cash flows to support debt payments.

Debt Structure

The leaguewide borrowing facilities were traditionally structured with revolving bank facilities and note programs to allow individual franchises access to capital depending on their specific borrowing needs. The revolving facilities and notes have little, if any, amortization and are required to refinance. Fitch will apply appropriate interest rate stresses where this risk exists consistent with the Master Criteria. Under leaguewide borrowing facilities, debt is paid through accounts ahead of teams receiving the revenues, thus creating a gross pledge on each individual franchise's right to national television revenues and other league-level pledged revenues.

Standard debt coverage and leverage covenants are present in the leaguewide borrowing programs and may constrain a rating.

Financial Profile

In addition to qualitative factors described previously, Fitch evaluates a league's ability to service debt in conjunction with maintaining healthy financial metrics under base and rating case scenarios in determining a rating. Fitch will also consider the specifics of the league on its own and in relation to its peers when determining the rating outcome.

Base Case, Rating Case and Sensitivities

Fitch positively views league policies that share national television revenues equally, compared with a league that distributes national television revenues based on a team's performance, such as television ratings or a team's win/loss record. Equal distribution provides, to some extent, additional parity among franchises by offering some level of revenue certainty per franchise, resulting in a more level playing field.

Leverage is the key financial metric Fitch analyzes for leaguewide borrowing facility programs. Debt service coverage provides some value, especially for break-even analysis. However, given leaguewide facilities are typically bullet maturities, interest-only coverage ratios have some limitations.

Fitch will analyze the television contracts and, if applicable, other league revenues pledged as they relate to the debt supported by the revenues. Leaguewide facilities are typically gross pledges, meaning revenue flows directly into managed accounts to service debt prior to flowing to teams for franchise expenses. Fitch will analyze leverage metrics based on the amount each franchise receives to the maximum league-allowed debt.

Fitch's base case assumptions will generally assume the contracts in place with investment-grade broadcast partners will meet their contractual obligations. Fitch monitors the credit quality of the broadcast partners and a significant change in the credit quality could affect the rating of the facility. For non-investment-grade television counterparts, Fitch may run sensitivities on a default scenario of the provider.

Given leaguewide borrowing facilities do not fully amortize within the television contracts, Fitch will incorporate various pricing sensitivities into television renewals based on the historical growth, viewership levels, demand and other trends affecting television pricing and competition for sports content. These sensitives will vary across leagues.

Break-even analyses are also important. Fitch will run break-even analyses on the renewal to understand the ability of the leaguewide structure to withstand a reduction to meet 1.0x interest coverage. Fitch will also look at a hypothetical "refinancing" scenario that fully amortizes the debt on a 10- to 15-year maturity schedule and analyze break-even levels associated with a full amortization.

The Indicative League Rating Guidance table below provides guidance to Fitch's approach for leaguewide borrowing facilities.

Indicative League Rating Guidance

Revenue Risk: League Business Model	Stronger	Midrange	Midrange	Midrange
Revenue Risk: National Television and Other League Revenues	Stronger	Midrange	Stronger	Midrange
League Initiatives/ Growth Perspectives	Midrange	Stronger	Midrange	Midrange
Debt Structure	Midrange	Midrange	Midrange	Midrange
Financial Profile	Stronger	Midrange	Weaker	Weaker
Security	National TV Revenues and Other League Revenues	National TV Revenues	National TV Revenues	National TV Revenues and Other League Revenues
Other Legal Protections	Interest Reserve	Interest Reserve, Work-Stoppage Reserve	Interest Reserve	Interest Reserve, Work-Stoppage Reserve
Five-Year Leverage (x)	2.0–1.0	2.2–1.8	4.5–3.5	5.0–4.3
TV Contracts (Years)	10	8	8	5
TV Counterparty	Mid to High Investment Grade, Multiple Partners	Mid-Investment Grade, Two Partners	Mid to High Investment Grade, Two Partners	One Strong Investment Grade and One Non-Investment Grade
Renewal Rates	Strong	Strong	Midrange	Midrange
Salary Structure	Hard Salary Cap	Soft Salary Cap	Soft Salary Cap	Hard Cap
CBA	Long Term	Long Term	Long Term	Long Term
Comment	Robust national TV contracts/hard salary cap/conservative debt policies/significant parity and competitive balance strong TV ratings/high revenue sharing/stable attendance/moderate growth prospects outside U.S.	Solid national TV contracts/soft salary cap/solid debt policy/moderate revenue sharing/ declining disparity between large and small market teams/stable attendance/growing international sport	Solid national TV contracts/increasing revenue sharing and parity/weaker debt policy/soft salary cap/significant disparity between large and small market teams/stable attendance/moderate growth prospects domestically and internationally	Solid national TV contracts/moderate revenue sharing/weaker league debt policies/ large disparity between large markets and small markets/hard salary cap/stable attendance/moderate growth potential outside U.S.
Implied Rating Category	A	A	BBB	BBB

CBA – Collective bargaining agreement.
Source: Fitch Ratings.

Rating Sports Franchise Debt

An understanding of a league's policies and procedures, as well as its underlying economic model, is a prerequisite for considering franchise fundamentals and is discussed in the Revenue Risk: League Business Model section. This along with revenue risk: franchise, facility infrastructure development/renewal and debt structure are the four key rating drivers. The financial analysis of the issuer completes the core analysis.

Fitch assesses the credit quality of franchise debt secured by the revenue generated from national television contracts, local media contracts, team sponsorships and advertising. Fitch also evaluates locally derived facility revenues consisting of game-day tickets, luxury suites, club seats, sponsorships and advertising agreements, concessions, parking and novelties. Additionally, a pledge of the franchise composes a portion of the collateral package.

Sports franchise ratings differ from facility and leaguewide borrowing programs in that debt is exposed to the operations of the franchise, primarily player salaries, which can vary greatly across leagues and franchises. Franchises in stronger leagues, with robust markets with strong operating profiles and significant financial flexibility are assigned investment-grade ratings. A long history of proven financial performance and flexibility, as well as demonstrated fan and corporate commitment during periods of both strong and weak performance, is essential in achieving investment-grade ratings on a franchise.

In reviewing an individual franchise transaction, several key factors need to be addressed, including the following:

- Can a team support both its operating costs and its debt obligations?
- Are there appropriate credit protection measures in place to support debt service and asset valuations in a downside scenario?
- Does the league take an active role in ensuring the financial viability of its member teams and the financial claims of creditors? and
- What is the track record of ownership in generating consistent financial results?

The right to operate a team is solely and exclusively granted by the governing league. The right granted by the respective league effectively serves as a key barrier to entry. This right to operate allows an acquiring owner exclusive access to national media revenues and other team-generated revenue streams. Moreover, each major sports league stipulates explicit rules prohibiting competing ownership within the same market, providing an owner the ability to operate in noncompetitive geographical markets for the respective sport.

Franchise Facility

The facility in which a franchise plays can have a significant impact on its operations. If the franchise has a favorable lease agreement and controls revenues at the facility, it retains the ability to control its revenues and expenses. A franchise that operates in a facility controlled by a public authority may be limited in its ability to maximize revenues. Conversely, that franchise may benefit from a public authority's operating and capital obligations under the terms of the lease. Fitch will analyze the strength of the facility from both an operating and revenue maximization standpoint, but also from a long-term fan interest perspective, as part of analyzing the franchise credit quality.

Financial Profile

In addition to qualitative factors, Fitch evaluates a franchise's ability to service debt in conjunction with maintaining healthy financial metrics under base and rating case scenarios in determining a rating. Fitch will also consider the specifics of the project on its own and in relation to its peers when determining the rating outcome.

Player payroll constitutes the largest cost component for a team. As such, the extent to which player costs can be matched against contractual revenue streams helps assess a team's reliance on less-certain revenue streams to support player payroll, operating expenses and debt service. Fitch will analyze the franchise's cost structure within the league economic model.

The experience and track record of senior personnel are also considered in the rating process of sports franchises. Items of emphasis include the ability to operate in a consistently profitable manner, and procure and retain coaching staffs and players. Nonteam-related issues and business dealings should also be considerations, as circumstances may focus managerial attention away from team operations.

Structural provisions that address potential work stoppages are a credit positive, specifically in instances when the collective bargaining agreement expires prior to the maturity of the rated debt obligation. The terms of the national media contracts may provide for the continued receipt of broadcasting fees during a work stoppage. However, teams will not receive any game-related income (ticket sales) and may have to remit refunds to ticket holders and sponsors. A labor contingency reserve helps to offset this risk by protecting debt service in the event of a work stoppage. Typically, labor contingency reserves will fund one year of debt service.

Base Case, Rating Case and Sensitivities

Fitch analyzes the ability and amount of positive cash flow a franchise generates. Fitch notes a thorough understanding of the league framework in which a franchise operates factors pivotally when analyzing cash flows in the value of a franchise.

Traditional cash flow-based credit metrics such as total debt/EBITDA and EBITDA/interest expense have limitations when evaluating team-level debt obligations given the ability to account for signing bonuses over an extended period. Leverage covenants and debt service coverage levels will be analyzed to determine that covenants and coverage levels are sized appropriately to the league and franchise historical performance and volatility.

For team ratings, leverage will be incorporated into the analysis in a number of ways. Traditional debt/EBITDA will be used as a proxy against other corporate-rated entities that exhibit similar credit characteristics. These entities would show a long history and substantial market share (monopolistic characteristics) and operate in high barrier to entry and discretionary spending-related sectors. Furthermore, Fitch will also analyze total debt, including facility or SPV debt, and analyze resulting aggregate leverage ratios. Fitch will give credit and analyze leverage ratios, including those affiliate cash flows, in the case where an SPV provides a stable annual cash distribution to the franchise.

Fitch's base and rating case scenarios will vary depending on league, franchise history and near-term expectations, as well as the market. Fitch's growth rates related to national television contracts or a local media contracts and other contractual revenues will generally reflect the parameters and growth assumptions in those agreements if the credit quality of the revenue provider is investment grade. Fitch will apply pricing sensitivities to non-investment-grade counterparties. Fitch generally believes there is a deep market for support for sports-related content and most revenue categories have strong replacement potential, but pricing could be adjusted.

For noncontractual revenues, Fitch will apply sensitivities to various revenue streams such as game-day ticket sales, concession, merchandise and parking, as well as other game-day revenues on a case-by-case basis, factoring in the league, franchise history and market.

Operating expenses sensitivities are also factored in. Player salaries and a franchise's largest expense item will vary from league to league based on the salary structure of the league. For example, an NFL franchise will have strict parameters around the salary limitations given the hard salary cap, compared with an MLB franchise that has no cap on player expenses. Fitch will also apply sensitivities to general and team-related costs.

Rating Sport Financings in Europe

Given the limited number of rated European sports bonds, any European sports transaction will essentially follow the same key rating drivers as similar transactions in the U.S. (e.g. completion risk [if applicable], league business model, franchise strength, infrastructure development and renewal, and debt structure), accepting the differences within which all EU sports franchises operate within their market. We will use the global key rating drivers for sports franchises as detailed above to assess European sports transactions.

Structural Aspects of European Leagues

National Leagues and Cup Competitions

European football is the most developed and popular sport in Europe. The English Premier League (EPL) and the Championship in England, Serie A in Italy, La Liga in Spain, Bundesliga in Germany and La Ligue 1 in France are widely regarded as the top leagues in Europe. These leagues provide central bargaining power, enabling their clubs to maximize media and some sponsorship revenues beyond what they could achieve independently. The clubs operate and compete within their leagues, as well as in competitions across Europe. There are also national cup competitions in each country. In England, the FA Cup is the oldest cup competition.

Continental European Competitions

Currently, there are two major annual European competitions. The most lucrative and prestigious one, the Union of European Football Association (UEFA) Champions League, is available to clubs finishing in the top three or four of their national league, whereas the less lucrative UEFA Europa League is available to next ranking clubs included in the top tier, in addition to national tournament cup winners. The exact number of qualifying positions for each national league depends on its club's past performance in the European competitions.

Relegation Risk

The key difference in league structures between the U.S. and European leagues is that the European football leagues practice a system of promotion and relegation. Relegation occurs when clubs that finish the season in the bottom two/three spots of their national league are demoted to a lower division and replaced by teams promoted from this lower division. This raises unique credit risk concerns. This structure also results in making virtually all games relatively important, whether:

- The top clubs seeking to win the league;
- The middle-top ranking clubs seeking to qualify for European competition with the extra income that it brings; or
- The bottom clubs hoping to avoid relegation.

This performance-related risk has significant implications on club revenues. First, broadcast rights fees decline dramatically on relegation. Second, attendance figures and commercial revenues also drop, as fans and sponsors lose interest due to the lower media exposure and lower perceived quality of the competition. However, some leagues such as the EPL provide an element of compensation for teams relegated to the Championship in the form of a temporary parachute payment, which marginally and temporally offsets the loss in media revenues. This payment should help the club remain competitive, increasing its chance for a promotion back to the top league.

Consolidated Approach for European Sport Transactions

Understanding of League Operations Fundamental

To rate a European sport transaction such as a football club, Fitch does not need to maintain a rating of the league. However, a fundamental understanding of the league's operations is key. Similar to U.S.-based sports transactions, these encompass the analysis of the fans and corporate support, the competitive balance between the teams, the league's revenue-sharing dynamics and the structure of the players' salaries.

European leagues are different from U.S. leagues on two key issues: i) the promotion/relegation structure creates an additional ongoing interest in the league due to the ability to replace weaker teams with the stronger regional teams. This variation encourages greater fan engagement and ii) the ability to sell media rights internationally in a wide range of different packages. Some leagues in Europe are stronger than others.

Focus on Consolidated Credit Risk Profile

Fitch typically focuses on the credit risk profile and credit metrics of the consolidated entity consisting of both the team (teamco) and its main financing vehicle such as media (mediaco), stadium (stadiumco) or issuer (player transfer facility). Due to the operational nature of the European leagues, the credit benefit of structurally separating the issuer from the team is viewed as limited, as these entities remain dependent on teamco's potentially volatile sporting and financial performance.

The only exception to this is in the event that a club's right to receive a payment stream due from the league is irrespective of the club's performance during a season (i.e. minimum payment). If this is supported by legal analysis, it may be considered on an unconsolidated basis.

Limited Rating Uplift in Favor of Issuer May Be Possible

In light of the ongoing developments of both the financing structures and the operating nature of the leagues, Fitch may consider, in some particular instances, a limited rating uplift of one or two notches in benefit of the issuer's instruments' ratings versus the consolidated credit risk profile. Tight ring fencing of the issuer, supported by legal opinions, would be required, together with some demonstrable evidence of both operational and financial independence of the issuer from teamco. Fitch will anchor its analysis using Fitch's Parent and Subsidiary Rating Linkage criteria.

Rating Delinking Between Leagues and Clubs

European football clubs are far less financially linked to their leagues than their U.S. counterparts due to the following key structural differences embedded in the European leagues:

- The relegation risk of poorly performing clubs;

- The inherent diversity of the clubs' financial strengths, with less equal distribution of media revenues and increased risk for clubs to incur high operating costs with, for instance, limited caps on players wages; and
- General lack of support from the European leagues for distressed franchises. Points can be deducted or clubs relegated in the event of financial irregularity such as administration.

Fitch views as highly speculative any swift potential realizable value that can be derived from either a club's stadium or its brands and media rights in the event of teamco's sporting failure or worse bankruptcy. The likelihood of a renowned club completely disappearing is considered as low, given many clubs have existed for over a century. However, its value could fluctuate significantly, more so than for U.S. sports franchises, depending on the club's current sporting performance and financial situation.

The value of a U.S. sports franchise, in contrast to a European one, is not typically impaired by the performance or even the bankruptcy of teamco. With the support of the league, the affected franchise would likely be sold to another owner, with its core value driven mainly by factors linked to the strength of the league.

Investment-Grade Accessible Only to a Handful of Top Clubs

To be considered investment grade, a club must demonstrate a strong history of significant sporting success; a very strong fan base both locally and globally; and the capacity to generate strong revenues to allow it to overspend its competitors on player wages, combined with a conservative debt structure and robust financial profile.

Larger Clubs Better Protected

The ability to attract top talent permits a club to both position itself each season as a clear contender to a top spot in the national leagues and compete in the Champions League. As a result, these top clubs enjoy high barriers to entry, which protect them to a large extent from downside risks such as relegation. Given the risks associated with relegation or missing European competitions, revenues can be more volatile than in the U.S. For an issuer to potentially achieve an investment-grade rating, Fitch would require substantial financial flexibility and debt service coverage combined with lower leverage and stronger debt structural support.

For larger clubs, Fitch perceives the risk of relegation risk as more remote. Larger clubs typically attract a larger share of media, commercial and attendance revenues that should allow them to pay for better players and to hopefully finish in the top tier. They also have a higher probability of early promotion in the event of relegation. For lower ranking clubs, relegation is a more of a risk and a rating stress scenario for which Fitch seeks adequate financial resources to meet debt payments.

Increased Leagues' Oversight of Teams' Financials

The governing body of the league typically has limited powers over a club's financial matters, with the exception of some quite draconian sanctions in the event of a club becoming insolvent, which could take the club from midtable to relegation and worsen its financial problems further. The European governing body, UEFA, requires clubs entering European competitions to obtain a license confirming their solvency for a period of 18 months. Although all of these methods of the supervision are somewhat passive, Fitch views them as credit positive for the football industry. The management of a club will have a strong incentive to manage its finances cautiously to avoid being ejected from any competitions.

Key Revenues Drivers

Broadcast Rights

Akin to U.S. sports, television and media contracts are relatively stable revenues, often accounting for more than half of a club's revenues. Contracts historically have been renewed every three years, with significant increases achieved at renewal. This provides Fitch with some comfort, but there is no certainty the value of future broadcasting contracts will be of equal or greater value. Consequently, Fitch's rating case will assume minimal, if any, increases in renewal amounts.

The governing bodies of each national league, such as the Football Association (FA) in England, typically negotiate and contract the broadcasting rights on a pool basis. The revenue is then shared among the clubs following a formula that varies depending on the national league. Typically, the distribution goes as follows: (i) equal share (e.g. 50% in England, 40% in Italy); (ii) club's popularity or media exposition (25%, 30%); and (iii) club's performance (25%, 30%).

There is a built-in bias toward the larger and more successful clubs, thus consolidating their ability to remain larger and more successful. This differs from the U.S., where clubs in the four major sports receive an equal distribution of national broadcast revenues, with the difference remaining only on the local media rights.

The payment made by the league to the clubs within their league are likely to be split between: a portion that is equally shared; a portion based on number of broadcast matches (known in the English Premier League (EPL) for example as facility fees); and a portion based on club's league finish position (known in the EPL as merit payments for example). The portion that is equally shared is paid irrespective of where the clubs finishes in the league as long as the club fulfils its obligation to play all their required games.

Match-Day Tickets Sales

Ticket sales can vary significantly between the largest clubs, with stadium capacity of more than 70,000, and the smallest clubs, with stadium capacity of less than 30,000. Fitch will review the history of a football club over the past 10–30 years, with particular focus on its league position and the effect on ticket prices and the stadium occupancy rate. Attendance can be volatile and strongly linked to the on-field performance, but clubs with a long history of strong local fan base together with an adequate stadium capacity tend to be more stable.

Sponsorship and Advertising Agreements

The wide appeal of football has driven huge growth in advertising and sponsorship revenue over the past decade. The sponsorship and advertising agreements are usually negotiated on a club-by-club basis. The better performing clubs with the largest local and global outreach of fans and stadium command the best deals for both their kit sponsorships and naming rights. Other revenues, such as merchandising, have historically followed similar patterns. The clubs with a higher affluent catchment area also have the ability to have higher priced corporate hospitality facilities.

Player Trading Revenues

This is another key difference from U.S. clubs. Unless a player is out of contract they can be sold between clubs for multimillion British pounds or euros at certain times of the season throughout Europe and, increasingly, globally. The selling club will develop a player and look for the highest price. The buying club will either pay up front for the player or they will agree to pay over time from their ongoing league revenues. The selling club can seek to forward sell this obligation under the player transfer facility. Some clubs developed high-class training facilities for players, with the aim to develop players and generate regular player trading revenues. In assessing the viability and sustainability of these revenues, we would look at the club's historical ability to generate revenues through the development and sale of players.

Key Cost Drivers

Player Salary Structure

There are no salary restrictions in European football. However, wages as a percentage of overall turnover is a standard measure of financial prudence, with 60% being the average for most European leagues. There are, of course, anomalies, particularly when a wealthy club owner is prepared to buy success. Some soft caps are increasingly being implemented. The UEFA regulation on financial fair play (FFP) effectively requires European football clubs to fund their spending with only their self-generated financial means. National leagues, such as the EPL, also implemented FFP regulations. Fitch views these rules positively, as they should stabilize the financials of the clubs and improve their credit risk profiles.

Relationship Between League and Players' Unions

Players' unions exist within European sports leagues, but their role has little overall financial effect, because they tend to be focused on protecting players against harsh disciplinary measures — usually by the league rather than an individual club — and securing appropriate compensation in the event of career-threatening injury. There have been no incidents of strike action in recent years, which Fitch views as a credit strength of European football transactions.

Financial Profile

Rating Guidance — Credit Metrics

Given the aforementioned different risks around European sport transactions, higher DSCRs and lower leverage would be needed to achieve a similar rating to the indicative facility of metrics provided for U.S.-based facilities. For instance, to be rated 'BBB', clubs with predominantly stronger key rating driver would have projected consolidated DSCRs of above 1.5x (with fully amortizing debt) or medium-term projected debt to EBITDA of below 3.0x under Fitch's rating case.

Base Case, Rating Case and Sensitivities

Revenues

Similar to U.S. transactions, Fitch will generally use a historical occupancy/attendance average of the stadium as a base case for attendance. Dominant clubs with a strong and local following may be stressed less in terms of match attendance. Fitch will assess the effect of stressed ticket revenues on the transaction's ability to service the debt. Fitch may include an attendance low point as an additional sensitivity in cases where attendance had significant historical volatility.

Fitch's base case and rating case will incorporate sensitivities to renewal rates for TV broadcast contracts which, despite the growing prospect of the major leagues, would be at a significantly lower growth rate than recent renewals.

Fitch generally takes a similar approach to creating stress scenarios for sponsorship and advertising, as compared with ticket sales and broadcast revenues, whereby historical impact of team performance and league standings are analyzed. Stressed sponsorship and other commercial revenues will typically follow the terms of the contracts, which often contain reductions for poor performance. In the event that a sponsorship or any other commercial contract expires, Fitch will assume renewals at a stressed rate, benchmarking the potential value to recent comparable transactions from peers.

Costs

Fitch will review player contracts to assess a club's flexibility in managing overall cost in the event of performing mid table (out of European competitions) or relegation. In reality, the better players will seek a transfer to a more successful club in such an event. In developing its base and rating cases, Fitch will assume a minimum annual net investment in players commensurate with the club's positioning in the league and recruitment policy. Most other costs are seen as independent of league position, so they will not typically be adjusted.

Non-Qualification to European Leagues or Relegation Risk

For cases where nonparticipation in the Champions League/Europa League or, in particular, relegation, are viewed as likely scenarios, Fitch will apply sensitivities on both revenues and costs, reflecting the related potential expected effects of such events. As a base case, Fitch will typically reflect the club's most likely position in its national league based on historical performance and financial strength. In developing its rating case, Fitch will assume a level of performance which it perceives as being sustainable 'through the cycle', which may involve an additional degree of stress in comparison to the base case.

Rating Assumption Sensitivity

Sports league, facility and franchise ratings are subject to positive or negative adjustment based on actual experience. The non-exhaustive list below includes the primary sensitivities that can influence sports ratings:

- League Operations: Changes to material broadcast and media contracts that significantly change the revenues of the league.

- Industry Changes: The entertainment nature of sports, sports ratings are exposed to economic downturns and longer term changes to fan and corporate interest, which could affect price points and demand and material changes to attendance.
- Counterparty Credit Quality: Movement in the ratings of key counterparties can influence or constrain sports ratings.

Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis, and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind our ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

Data Sources

The key rating assumptions for the criteria and the data used to assign ratings are informed by Fitch's analysis of transaction documents, and data and information received from issuers and/or obligors for financed projects; arrangers; third-party engineers; consultants and other third parties; public information; and Fitch's analytical judgement.

Disclosure

Fitch expects to disclose, as part of its rating action commentaries or new issue reports, base case and rating case assumptions, and the rationale for adjustments to either the base case or rating case assumptions. Fitch will also disclose in its transaction-specific research and any metrics utilized in the analysis that are not described in the criteria. In addition, Fitch will disclose any variation to criteria (as mentioned in the *Variations from Criteria* section). In many cases, Fitch uses the assumptions that it derived in its initial analysis in its surveillance review. In order to focus Fitch's rating action commentaries on the most important changes to the rating, Fitch will not disclose these assumptions in subsequent rating action commentaries unless there is any change to the assumption.

Limitations

Ratings, including Rating Watches and Outlooks, assigned by Fitch are subject to the limitations specified in Fitch's Ratings Definitions and available at https://www.fitchratings.com/site/definitions.