

NEW YORK--( [BUSINESS WIRE](#) )--Fitch Ratings affirmed the 'A' rating on Major League Baseball's (MLB) Club Trust Securitization's \$500 million senior secured credit facility. Fitch also affirmed the 'A' rating on the outstanding \$995.85 million term notes (series 2 - 16 maturing through 2025). The Rating Outlook is Stable.

## RATIONALE

The rating reflects the core underlying business fundamentals including stable fan base as well as a unique operating model and environment, which continue to perform positively including during the recent economic downturn. New television contracts went into effect in 2014 at extremely favorable levels corresponding to near-term projected leverage of 2.0x (based on each individual club's share to allowable debt under the facility) and decline over the medium-term. Additionally, the diversity of MLB revenues from Major League Baseball Advanced Media (MLBAM) and revenue sharing has bolstered individual team financial health also strengthens the credit profile. The rating also reflects the discretionary spending nature of sports, potentially leaving the credit sensitive to macro-economic trends.

## KEY RATING DRIVERS:

**Solid Underlying League Economics:** Debt service supported by large contractual revenue streams from investment grade counterparties. MLB's current collective bargaining agreement (CBA) runs through 2016 and includes some additional strengthened core elements that promote financial stability and competitive balance. MLB continues to maintain a stable domestic fan attendance and viewership base and growing international fan base.

**League Oversight and Governance:** League's demonstrated willingness to step in and aid 'distressed' franchises. For example the league assisted the Texas Rangers and Los Angeles Dodgers during ownership issues.

**Solid Legal Covenants and a Demonstrated Bankruptcy Remote Structure:** Structural

provisions ensure timely debt service. The MLB Club Trust structure utilizes a bankruptcy-remote securitization of pledged revenues consisting of long-term national broadcast partners in place through 2021. Noteholders benefit from the bankruptcy remote structure, which eliminates team related risks; however, they remain subject to all the fundamental operational risks of MLB.

**Long History of Television Contracts:** MLB has long-term television contracts with ESPN (Disney; rated 'A' with a Stable Outlook), FOX Broadcasting Company (NewsCorp.; rated 'BBB+' with a Stable Outlook) and Turner Broadcasting System (TBS) (Time Warner, Inc; rated 'BBB+' with a Stable Outlook). The contracts which took effect in 2014 and run through 2021 represent a 100% increase in annual rights fees from the previous contract and deliver \$12.4 billion in combined revenue.

**Refinancing Risks Expose Teams to Potentially Higher Costs:** The bullet maturities associated with the notes and bank renewals associated with the revolving credit facility expose the teams to potentially higher interest costs.

#### RATING SENSITIVITIES:

-- A significant decline in national television contact rights fees, due to the termination of the existing agreement and no new broadcast partner or lower renewal rates, although unlikely, could negatively impact the financial profile and metrics of the borrowing programs resulting in rating pressure.

-- A substantial change in individual and corporate spending on MLB related content could materially weaken the credit and result in negative rating action.

#### SECURITY:

The notes and revolving credit facility of the MLB Club Trust Securitization rank pari-passu and are secured by, among other things, rights to receive certain payments shared among MLB clubs, including, primarily, the aforementioned national broadcast

revenues from national and international media contracts, and, to a lesser degree, revenues under licensing and sponsorship received by Major League Baseball Properties, Inc.

#### TRANSACTION SUMMARY:

MLB national television agreements with Fox, Turner, and ESPN which took effect in 2014 will deliver a combined \$12.4 billion through the term of the contract which represents more than a 100% increase in annual rights fees to MLB compared to the previous contracts. The contracts run through the end of the 2021 season. The contracts provide further stability for both the senior secured credit facility and term notes. MLB increased the allowable per team borrowing limit to \$100 million, subject to league approval on a team by team basis, following the increase in national television revenues.

The current CBA between MLB and the Major League Baseball Players Association (MLBPA) runs through 2016 and essentially guarantees 21 straight years of labor peace when combined with previous agreements. The CBA includes a number of the economic and competitive fundamentals from prior agreements including a salary structure that includes a 'competitive balance tax' system, free agency structures and a high level of revenue sharing among member clubs. The competitive balance tax system has been slightly altered. The tax will decline to 17.5%, from 22%, of the actual dollars spent for clubs exceeding the threshold for the first time, but the tax as applied to repeaters will increase to 50% of that same figure for clubs that have spent above the predetermined level at least four consecutive years. An increase in the minimum salary will also be implemented.

MLB clubs are now subject to the aforementioned debt service reserve (DSR) based earnings before interest taxes depreciation and amortization (EBITDA) during the most recent year. Under the new agreement, the rule for leverage is 8 times (x) EBITDA (and 12x EBITDA for any club which has incurred stadium-related debt to finance construction of a new ballpark or major renovation in the last 10 years). Under the prior agreement MLB's debt service rule of 10x and 15x EBITDA, respectively, was viewed as high. Fitch views the lower leverage thresholds and the oversight of the Commissioner's Office to enforce compliance with the DSR favorably.

MLB's performance during the recent economic recession is a testament to the

expected stability and demand for professional baseball in the U.S. and internationally. In 2013 attendance declined slightly by approximately 1.1% to 74 million following an increase of 2% in the 2012 season. Overall, 2014 season attendance is currently projected to be flat, up 0.1%, demonstrating the stability of the games fan base. Fitch notes the positive endeavors MLB has undertaken to enhance the fan experience and distribution of the game through MLBAM products as well as the continued development of MLB Network and World Baseball Classic. In addition, Fitch considers MLB's efforts in youth baseball paramount to cultivating the future generations of baseball fans.

Fitch favorably views MLB's economic model and financial policies, although a wide disparity exists between the revenues generated by the largest and smaller teams. A team's reliance on local revenues, which fluctuate significantly between small and large markets, and their discretion to spend unreservedly on player salaries can result in greater financial disparity among MLB teams. This disparity has the potential to lead to a less competitive framework for MLB. However, Fitch acknowledges that this disparity is partially mitigated by a revenue sharing transfer in excess of \$355 million for 2013. Additionally, Fitch recognizes MLB's long history of viability in good and bad economic times and, more recently, the diversity of MLB clubs that have participated in the postseason since 2000 as important mitigating factors. Furthermore, Fitch notes, despite the range of financial disparity among participating clubs, noteholders are insulated from team level operations given their rights to national broadcast contracts to service debt prior to distributions to teams for operations which was tested and validated in the recent bankruptcy proceedings of the Los Angeles Dodgers and Texas Rangers.

While some teams are facing increased financial pressure due to weak economic conditions impacting attendance levels as well as corporate spending levels on sponsorships and advertising, those teams may be partially insulated in the near term by the long-term national television contracts and local broadcast contracts which provide a sizable portion of overall team revenues. Additionally, to a lesser extent, the high percentage of multi-year contractually obligated stadium-based revenues such as luxury suites, club seats, sponsorship and advertising agreements partially offset volatility associated with game day ticket sales. Nevertheless, potentially lower renewal levels of key revenues at the league and individual team levels, should economic conditions worsen may financially constrain the league and member teams. A key offset to the risk of softening stadium revenue growth includes recently signed new and/or extended local broadcasting agreements which provide additional revenues to support underlying financial stability.

The MLB Trust is a bankruptcy-remote Delaware statutory trust established and owned by the member Clubs of MLB that choose to participate in the MLB Club Trust

Securitization. MLB currently has 30 teams in major metropolitan areas in the U.S. and Canada, of which 22 participate in the MLB Club Trust Securitization.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

Applicable Criteria & Related Research:

--'Rating Criteria for Infrastructure and Project Finance' - 12 July 2012;

--'Rating Criteria for U.S. Sports Facilities' - 9 Aug. 2012.

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Rating Criteria for Infrastructure and Project Finance

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=682867](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682867)

Rating Criteria for U.S. Sports Facilities, Leagues, and Teams

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685897](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685897)

Additional Disclosure

Solicitation Status

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