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Fitch Rtgs: Coronavirus Curbs Will Pressure US Sports Facility Revenues

Fitch Ratings-New York-10 March 2020: Sporting event postponements, cancellations and/or reduced attendance in the US as a result of coronavirus concerns will lead to revenue and profitability declines and a drain on liquidity at affected stadiums, arenas and facilities, says Fitch Ratings. League-level ratings, including the National Basketball Association's (NBA) 'A-' with a Stable Outlook, are supported by longer-term media rights contracts, which should provide better near-term protection from coronavirus concerns compared with facility ratings. The majority of Fitch-rated facilities have sufficient liquidity to absorb short-term revenue disruptions in the form of six-month debt service reserves and moderate balance sheet cash. Revenue declines may affect credit if a material number of games are cancelled or played without audiences. Team level liquidity and ownership support will be critical for ratings in the event of prolonged disruptions.

The Indian Wells tennis tournament in Riverside County, CA is the first major sporting event in the US to be postponed and South by Southwest (SXSW), a large concert festival, is the first major concert event to be cancelled. Given the spread of the virus, it is more likely leagues or governments may decide to play without audiences or reschedule or cancel games, similar to measures taken in other countries. International and domestic professional sports leagues specified best practices for interactions between players and fans and restrictions on media and other non-team personnel in locker rooms.

The NBA and the National Hockey League (NHL) have less than a quarter of the season remaining, fewer than 20 games per team, but rescheduling remaining games could be difficult given limited dates and potential travel restrictions. The playoffs are an important part of team and facility profitability, and are slated to begin soon for the NBA on April 18 and the NHL on April 8. The leagues control the schedule and could make adjustments if circumstances rapidly change. Major League Soccer's (MLS) season is just kicking off while Major League Baseball's (MLB) regular season launches in just over two weeks.

Certain universities already ordered games to be played behind closed doors. The National Collegiate Athletic Association's (NCAA) college basketball tournament, known as 'March Madness', consisting of 68 teams playing throughout the US, starts on March 17. It remains an open question as to whether colleges will limit travel or involvement for the tournament.

Fitch-rated US facilities have multi-year naming rights agreements, sponsorships and premium seating and suites contracts and other contractual revenues providing a steady revenue stream. However, some of these contractual revenue streams include provisions for a minimum number of events and could be adversely affected by a reduction in games and/or games played without fans. All major sports venues have business interruption insurance covering a portion of lost revenue but it is not clear if coronavirus-related losses would be considered insured business risks. Fitch will evaluate each facility on a case-by-case basis in the coming weeks.

Empty venues would also leave teams vulnerable to a loss of game day food and beverage concession sales, parking sales and game day tickets sales, which would lead to an overall decline in net income. While a loss in game day revenues may be somewhat offset by a reduction in game day operating expenses, this will be minimal as most arena management and concession contracts are set for the entire season, leaving little expense flexibility.

The majority of revenue at the league level is from long-term TV deals. If games were played behind closed doors, this may drive an increase in TV viewing levels and could potentially drive an increase in certain TV subscription packages but this is likely to be a short-term effect. Particularly as TV contracts are longer-term, a brief increase in viewership is unlikely to provide the league with higher bargaining power when renegotiating TV contracts.

If the current shocks to the economy precipitate a more prolonged global recession, the discretionary nature of consumer spending on sports entertainment presents some risks to the industry. However, the research behind Fitch's report 'Sports: 10 Years in Infrastructure' suggests the sector fared quite well during the 2008 recession.

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