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The Business of Sports

BANKS WAIVING, AMENDING COVENANTS SO TEAM OWNERS CAN REMAIN IN COMPLIANCE WITH LOANS

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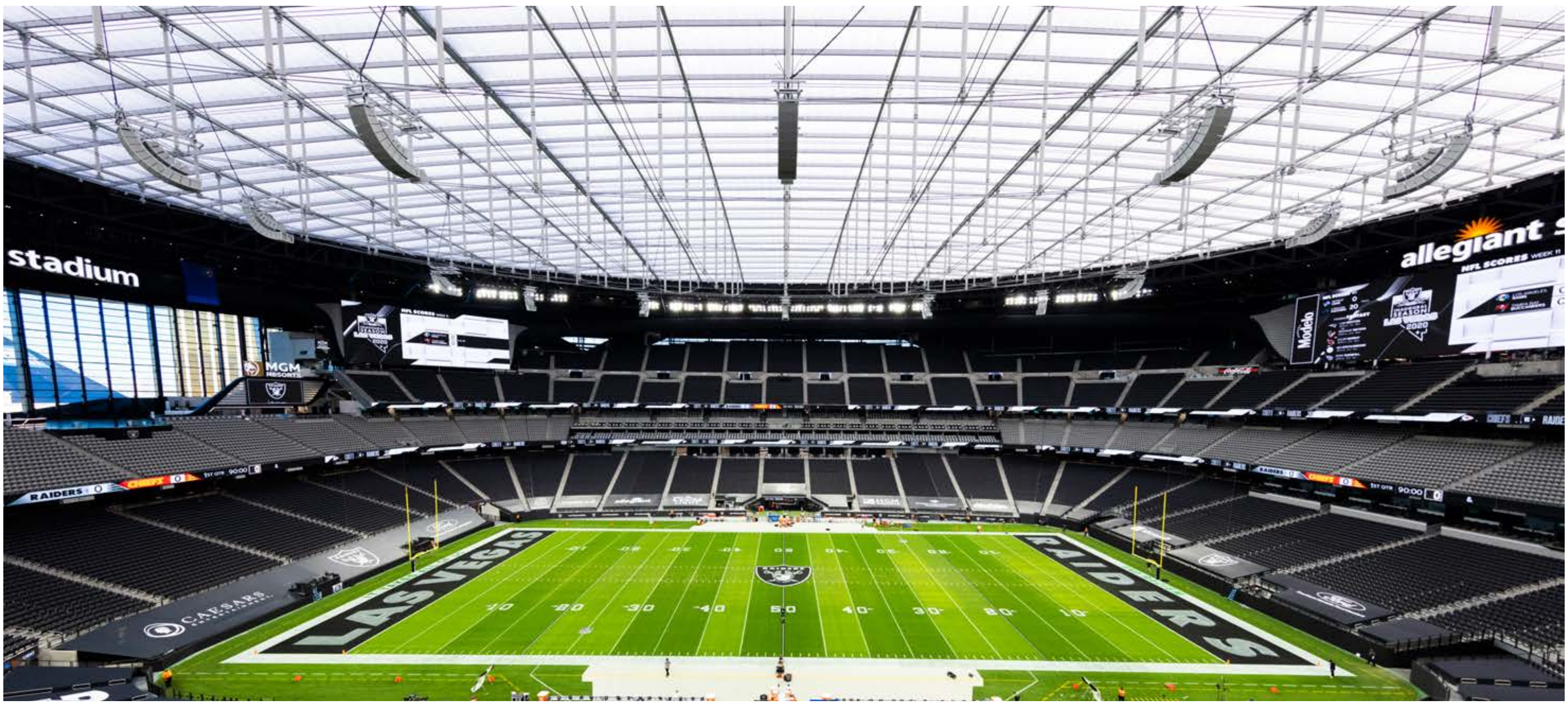

General view of the Interior of Allegiant Stadium from an elevated position before an NFL regular season football game against the Kansas City Chiefs and the Las Vegas Raiders on Sunday, Nov. 22, 2020 in Las Vegas. The Chiefs won, 35-31. (Ric Tapia via AP)
AP

Team owners across the sports ecosystem borrow money to fund the purchase of clubs, cover operational expenses and build new venues. The bank loans or private placements taken out often contain covenants stipulating the terms and conditions by which the borrower must abide (think: financial metrics tied to revenue, expenses and **debt(https://www.sportico.com/t/debt/)**). But with teams across the big four leagues having collectively lost upwards of **$7 billion in 2020 (https://www.sportico.com/business/commerce/2020/lockdown-sale-teams-1234616730/)**, the reality is that many of those covenants likely have not been met (at least not in their original form). That does not mean the financial institutions lending to pro teams and their owners are going to declare those loans to be in default, though. Conversations with a trio of sports bankers—including Sal Galatioto (president, Galatioto Sports Partners)—indicated that the far more likely scenario is **banks(https://www.sportico.com/t/banks/)** and bond issuers waiving or amending covenants so that the borrower can remain in compliance and simply extracting a fee for the additional risk they're taking on.

Our Take: Each of the major U.S. pro sports leagues maintains low limits on the amount of money that can be borrowed against the team (some did increase their debt limits to help teams cover COVID-19 induced losses). So, unlike in Europe, none of the big four franchises is heavily leveraged. That's why, Galatioto said, banks with team-backed loans on the books have not "lost any sleep [as a result of the pandemic]. Worse comes to worst, somebody will buy the team [for far more than the debt owed]. There's huge demand [for control ownership stakes. Team] debt isn't going to be impaired in any way."

Teams that have maxed out their league credit facility have either made capital calls to offset the revenue shortfall suffered in 2020, or they've taken out loans backed by the balance sheet of the partners, the stadium or local revenues (if permitted by league rules). One boutique sports investment bank we spoke to said it is working with two teams that have each borrowed 100% of what they needed to offset the lost income, including one "that got a $65 million line of credit from their local bank to fund themselves through the pandemic." To date, no team has defaulted on its debt.

Ownership groups that have constructed largely—or entirely—privately financed new facilities are the ones most likely to be levered up and in distress. In a normalized environment, the cash flow generated by the building (think: ticket sales, concessions, parking) is supposed to repay the debt. But with few or no fans in attendance for the last nine months, it's reasonable to believe that new venue owners have needed **loan(https://www.sportico.com/t/loan/)** covenants to be waived or amended along the way to remain in compliance. "The overriding notion is the banks have been very accommodating [with borrowers]," willingly renegotiating the terms of their debt—including the repayment schedule, said one of the sports bankers. "I haven't heard of teams having to go to hedge funds or anywhere else to get capital." It should be noted that private stadium financing deals also typically have nine months' to one year's worth of reserves built in—funds that have likely helped many get through the pandemic. The Las Vegas Raiders are among the teams known to have

tapped(https://www.sportico.com/business/finance/2020/las-vegas-taps-reserve-money-1234617253/)

into new stadium reserves in 2020.

Lenders have not shown any indication to date that they wish to accelerate loans or declare defaults on sports-related debts. As Galatioto said, "if the bank believes [playing without fans in the building] is a temporary thing, they're going to renegotiate [the terms]; what else can they do?" A second banker agreed, saying the banks are "looking at this as a one-year phenomenon" with a return to normalcy on the near-term horizon. Of course, financial institutions are going to look to take a pound of flesh if they are going to waive a covenant default or amend loan terms—particularly if it is a lesser-known or newer team owner holding the bag. For the record, Galatioto said he has so far "not had a single client come back and look to renegotiate."

Banks likely won't take draconian action against a team or team owner because it's not a smart long-term play. Many team owners have long-standing associations with their lenders and the leagues—which maintain their own dealings with these financial institutions—and most certainly would frown upon a forced sale. It's also not as if there are a ton of potential buyers or alternative uses for an 18,000-plus-seat venue (in other words, the lender really doesn't want to take possession of the building). None of the bankers we spoke to envision a lender moving to force a franchise sale or take back a building—even if the pandemic is to last another year.

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