Wembley: priced to go?

01/11/2002

The price and debt/equity split is finally right ? London's WestLB-arranged Wembley Stadium project has closed fully underwritten after two years of structuring and restructuring. The two-tranche deal closed on 26 September 2002 with £426.4 million debt split equally between three banks, £163 million equity from the Football Association (FA) and £161 million in government grants.

Two false starts at the beginning of 2002 demonstrated a simple point ? it can be more expensive in terms of delays and unnecessary arranger fees to try for too tight a deal in an uncertain market. In January, JP Morgan was unable to attract interest in the project, and Barclays dropped the deal just before close in March. Overall fees may now have topped £80 million.

The project initially met with banking skepticism because of uncertain real toll-style revenue streams, high project costs and over-ambitious design. But WestLB, SG and Lehman Brothers have stepped in with a deal that overcame doubters with considerable debt/equity restructuring and a margin of 250bp over Libor: the original margin proposed was between 150-200bp.

The new pricing comes with the expectation that the borrower (the FA) will refinance through securitisation once construction completes in 2006. Debt repayments will be made quarterly with a maturity of 16 years.

Previous packages were considered unworkable by potential lenders. There was not enough sponsor support from the FA initially, the financing was not clarified well enough and the Secretary of State publicly doubted the design.

More sponsor equity was a must for the deal to attract lenders. The FA agreed to inject £163 million equity to restore faith in the project. This was in addition to long-term staging agreements between project company Wembley National Stadium Ltd (WNSL), wholly owned by the FA, and the FA for 30 years of matches at Wembley, and the Rugby League and Rugby Football League for 20 years of matches, effectively ensuring ticket sales.

However, staging agreements are not guaranteed income and offer only relative comfort to lenders. The main source of comfort is CSFB underwriting forward sales of the 18,000 premium seats during construction period. There will be 90,000 seats altogether. A strong marketing campaign is lined up to sell off the much-increased portion ? originally 11,000 ? of premium seating.

Licenses for premium seats should be bought by fans, corporates and private groups. They are forecast to generate £50 million before the stadium is complete. CSFB is underwriting this risk at a margin upwards of 250bp for £25 million. Should seating sales fall short of £50 million, the mezzanine facility can be drawn on to make up the deficit. ?It has the feeling of a guarantee but really it's a mezzanine loan that may be drawn if certain premium ticket sales targets are not met,? says Doug Tiesi, head of the debt principal team at CSFB. ?We absolutely think that the ticket sales targets for the mezzanine are a no-brainer, and that it's just a formality to make it bankable.?

WestLB's confidence in this facility helped push the deal along. Rapid restructuring took place from start to close in just four months. With most obstacles already addressed by the previous arrangers it was a clear run for the bank.

In terms of government support, should revenues fail to meet forecasts, the project very much stands on its own two feet. The department of culture, media and sport has stated that support would be in the form of a one-off grant. As a result, the FA will pay out £10 million per year in contigency funds should semi-annual figures say it has underperformed.

There is a debt/equity split of 55/45. Public money used in the project has funded the acquisition of Wembley Stadium ? sites in Birmingham and Manchester were also considered but quickly dismissed as too costly. Grants will also fund local infrastructure development to improve road and rail links to the Stadium. These come in the form of a £120 million National Lottery grant from Sport England. £20 million comes from the department of culture, media and sport and a £21 million grant from the London Development Agency.

Shareholders are expecting dividends within a five-year period. Once the project is operational, its profitability will be ongoing immediately because of guaranteed events and low running costs. Cashflow will go to a WNSL account, firstly to pay overheads, secondly to pay senior debt, interest and principal, next, reserve accounts, then the CSFB mezzanine loan, interest and principal and lastly distributed amongst shareholders.

The stadium represents a landmark deal, and possibly the most unusual financing in recent years in the UK. Due diligence included comparisons with other large stadiums such as Stade de France, Stadium Australia (bailed out by the government several times) and the Millennium Stadium in Cardiff. However, financing packages for these stadiums had more government support than Wembley.

The WNSL board also faced some humiliating challenges along the way. Chairman Ken Bates was ousted late last year. In his place came Sir Rodney Walker, who got the project back on line.

All in all, the project initially ?rang alarm bells,? as one lawyer close to the deal has suggested. WestLB comes out well, securing the project by encouraging equity and underwriters for the riskiest part of the deal ? future revenue streams from the fee-paying public. WestLB will be looking to the typical UK PFI outfits to underwrite the next tier of senior debt.

As Project Finance goes to press the deal has been in syndication for a week. No expressions of interest have been received as yet.

Stadium Limited

Status: Closed 26 September 2002

Location: Wembley, London, UK

Sponsor: FA

Total Cost: £750.4 million

Debt: 426.4 million

Debt/Equity split: 55/45

Lead Arrangers: WestLB, SG, Lehman Brothers, mezzanine debt by CSFB

Lawyers to sponsors:

Allen & Overy and Bird & Bird

Lawyers to lenders:

Shearman & Sterling, Freshfields

Lawyers to Government:

Lovells and Hammond Suddards

Construction: Mutiplex

Technical advisers: WSP

Managing Agents (ticket sales): International Management Group (IMG)