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The Sports Authority's Recovery Rating Profile

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Overview

- Standard & Poor's Ratings Services has completed a review of the recovery and issue-level ratings assigned to the debt of the Englewood, Colo.-based The Sports Authority Inc.
- This is in conjunction with the company's refinancing of its existing term loan and senior subordinated notes.
- Our recovery analysis incorporates a simulated default scenario that contemplates a default occurring in 2016, a result of a steep deterioration in demand due to a significant decline in the economy and weak consumer spending, as well as loss of market share from increased competitive pressure.

Table 1					
The Sports Authority Inc.--Credit Profile					
Corporate credit rating	B-/Stable/--				
Estimated gross enterprise value at emergence (mil. $)	810.0				
Simulated year of emergence	2016				
Facility/issue	**Estimated principal at emergence (mil. $)**	**Issue rating**	**Recovery rating**	**Expected recovery (%)**	**Maturity**
Secured debt					
$650 million ABL revolver	550	NR	NR	N/A	2017
$630 million term loan facility	604.8	B-	4	30-50	2019
NR--Not rated. N/A--Not applicable.					

Legal And Structural Considerations

Capital structure

The Sports Authority Inc.'s (TSA) capital structure consists of an unrated $650 million asset-based revolving (ABL) credit facility due 2017 and a $630 million term loan that matures in 2019.

Security and guarantee package

The Sports Authority Inc. and TSA Stores Inc. are the co-borrowers under both the ABL revolver and the $630 million term loan, all of which are guaranteed by the parent holding company, as well as each material domestic subsidiary of the borrower on a senior secured basis. The ABL revolver is secured by a first lien on current assets (ABL collateral), including accounts receivable and inventory, and a second lien on all other assets, including real estate and fixed assets. The term loan facility is secured by a first lien on real estate and fixed assets, and a second lien on the collateral securing the ABL.

Documentation/covenants

The ABL revolver is subject to a springing fixed-charge coverage covenant when excess availability falls below the greater of 10% of the loan cap and $50 million, while the term loan facility is not subject to any financial maintenance covenants. Both facilities contain a negative covenant package that includes, but is not limited to, limitations on additional indebtedness, asset sales, certain investments, restricted payments, disposition of certain assets, and affiliate transactions.

Jurisdictional/insolvency regime issues

Our analysis assumes any bankruptcy proceeding would take place in the U.S. and would not include, or be influenced by, foreign jurisdictions or regimes.

Recovery Analysis

Table 2

The Sports Authority Inc.--Stressed Valuation*

--Simulated emergence assumptions--		**--Simplified waterfall--**	
Year of emergence	2016	Gross enterprise value at emergence	$810 mil.
EBITDA at emergence	$135 mil.	Administrative costs	$40.5 mil.
Implied enterprise value/EBITDA multiple	6x	Net enterprise value	$769.5 mil
LIBOR rise	150 bps	ABL revolver	$566 mil.
Margin rise	200 bps	Term loan facility	$625.5 mil.
		Recovery expectation	30%-50%

*Includes six months of prepetition interest.

In assigning recovery ratings, Standard & Poor's simulates a payment default scenario that incorporates a borrower's fundamental business risks and the financial risk inherent in its existing capital structure. Our methodology generally assumes that all committed debt is fully funded, but does not make any specific assumptions for the addition of any other debt prior to default. Our recovery and issue ratings are subject to re-evaluation if a company's capital structure changes materially, which is a key aspect of our ratings surveillance.

Simulated default scenario

Standard & Poor’s simulated default scenario considers a steep decline in the economy that leads to a contraction in demand for sporting goods--a result of a tightening in consumer discretionary income. The scenario is coupled with failed merchandising strategies and increased competitive pressure, all of which result in a significant decline in revenue, operating leverage, and income.

These events are expected to inhibit the company’s ability to meet its fixed-charge obligations. Additional assumptions include:

- ABL revolver availability of approximately 85%, which takes into account our expected borrowing base, as well as the springing fixed-charge covenant that the company would likely be in violation of in a distressed scenario;
- The ABL revolver is fully drawn up to the assumed level of availability;
- LIBOR increases 150 bps by 2016, our assumed year of default; and
- The margin on the ABL revolver increases by 200 basis points, reflecting the simulated credit deterioration under our scenario and the fees and/or increased pricing associated with obtaining a waiver/amendment of the financial covenant.

Valuation

Our simulated default scenario assumes that The Sports Authority would reorganize as a going concern in a distressed scenario. This assumption considers the company’s recognized brand name, national footprint, and relatively large real estate portfolio. We have utilized an enterprise valuation approach to assess recovery prospects and have applied a 6x multiple to our assumed emergence level EBITDA to arrive at our estimated gross emergence enterprise value.

Outcome

After deducting estimated unpaid priority administrative expenses and ABL revolver claims, we estimate average (30%-50%) recovery of principal and unpaid prepetition interest for the term loan lenders in the event of a payment default or bankruptcy.