

Rating Action: Moody's affirms Lyric Opera of Chicago, IL's A1 issuer rating; outlook stable

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Lyric has no rated debt

New York, November 22, 2013 -- Moody's Investors Service has affirmed Lyric Opera of Chicago's A1 issuer rating. The outlook is stable. Lyric has no rated debt based on the underlying rating. The A1 rating reflects Lyric's prominent market position, strong liquidity and financial resource cushion offset by very limited expense flexibility and the ongoing challenge to grow attendance and membership. The stable outlook is based on the expectation that strategies to grow revenue and financial resources will be successful given strong governance and fiscal practices.

SUMMARY RATING RATIONALE

The A1 issuer rating is based on Lyric Opera of Chicago's status as a prominent Chicago cultural institution, strong liquidity and financial resources relative to debt and operations, and consistently healthy fundraising results. The A1 rating also factors the risks associated with Lyric's all-variable rate demand debt structure with bullet maturities, high fixed cost operating structure, recent operating deficits (as calculated by Moody's), and ongoing challenges to grow ticket sales and attendance. The stable outlook reflects the expectation that Lyric will continue to grow its available financial resources and revenue from gifts, enhanced programming, and strategic ticket sales, and that no additional debt will be issued. All these efforts are supported by a committed and engaged board that bring strong governance practices and professional expertise, as well as philanthropic support to Lyric.

STRENGTHS

*Lyric is a prominent Chicago cultural organization with a large subscription base, which supports its ability to enhance attendance, garner philanthropic support, and attract prominent individuals from the region to sit on its board of trustees.

*Fundraising, investment returns, and long-term financial planning are expected to further strengthen Lyric's financial resources and liquidity relative to debt and operations. Expendable financial resources were \$158.2 million at FYE 2013, which covered direct debt by a solid 2.4 times and operations by 2.6 times.

*Liquidity is a strength of Lyric as well as a key focus. Monthly liquidity of nearly \$115 million in FY 2013 covers over 600 days of operations, and represents approximately 60% of total cash and investments.

*Lyric has strong governance oversight and fiscal management practices that are key to Lyric's ongoing financial health.

CHALLENGES

*A significant portion (about 70%) of the Lyric's operating budget is fixed, which limits its expense flexibility should revenues soften.

*Lyric's debt which is predominantly variable rate and structured with bullet maturities has inherent risks. Compliance with covenants and restrictions, and the ability to make payment of the bullet maturities require careful management and oversight.

*Most of Lyric's operating revenues are vulnerable to market volatility given its dependence on economically sensitive sources, including gifts (41% in FY 2013), admissions revenue (40% in FY 2013), and investment income (13.7%). Declines in national attendance of opera, coupled with high competition for audience members and donors with other cultural organizations and entertainment venues will remain a challenge.

Outlook

The stable outlook reflects the expectation the Lyric will continue to grow its available financial resources and

revenue from gifts, enhanced programming, and strategic ticket sales, and that no additional debt will be issued. All these efforts are supported by a committed and engaged board that bring strong governance practices and professional expertise, as well as philanthropic support to the Lyric.

WHAT COULD MAKE THE RATING GO UP

An upgrade is not likely given the size of Lyric's operations, but could result from continued fundraising strength contributing to substantial growth in unrestricted financial resources.

WHAT COULD MAKE THE RATING GO DOWN

A downgrade could result from a deterioration of financial resources and debt, sustained cash flow at currently weak levels, inability to grow ticket and subscriptions sales, or assuming significant additional leverage with a similar increase in financial resources.

RATING METHODOLOGY

The principal methodology used in this rating was Moody's Rating Approach for Not-for-Profit Cultural Institutions published in November 2004. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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