Published October 11, 2007

Lyric Opera of Chicago

Ratings & Contacts

Category	Moody's Rating	Analyst	Phone
Issuer Rating	A1, stable outlook	Diane F. Viacava Margot Asher	1.212.553.4734 1.212.553.7124

Issuer Details

Legal Name of Obligor:	Lyric Opera of Chicago	**Lyric Opera of Chicago:** Richard Dowsek Director of Administration and Finance	 1.312.827.5360

Key Indicators

Total Debt ($000)	Total Financial Resources ($000)	Total Revenues ($000)	Expendable Resources to Debt	Expendable Resources to Operations	Average Operating Margin
$63,646	$167,560	$60,358	2.3 times	2.5 times	1.5%

Opinion

Moody's Investors Service has assigned an A1 issuer rating to Lyric Opera of Chicago (Lyric), a not-for-profit cultural institution. This is an initial rating for the organization. Lyric has no rated debt based on the underlying rating.

Moody's believes that Lyric Opera of Chicago's standing as a prominent Chicago cultural organization is a credit strength underpinning its A1 issuer rating, resulting in ongoing strong subscriber trends and ticket sales.

A credit strength for the institution is the board and management team for Lyric. The Board of Directors has a clear committee structure and board members who provide active oversight of Lyric's operations, financial performance, and fundraising activities.

Lyric has shown generally balanced operating performance, with the three-year average operating margin of 1.5% for fiscal year (FY) 2007, reflecting the budgeting process and oversight of management and the board to maintain at least balanced operating performance as measured by the organization. One challenge for Lyric is the unionized employee base and the possibility of a strike, resulting in a "dark" performance season and lost revenue; however Lyric has only been affected by one "dark" season due to a strike in the late 1960's.

We believe Lyric will continue to maintain healthy financial resource levels, supported by good philanthropic support and investment performance. At fiscal year end (FYE) 2007, total financial resources were $168 million, up from $128 million in 2005. With $123 million of resources unrestricted, the Lyric has considerable flexibility in dealing with fluctuations in its subscription and ticket sales, as well as in supporting debt service from reserves.

Fundraising has been active, with three year average gift revenues of $27 million for FY 2007. Since the 1990s, Lyric has conducted three campaigns, all with strong Board support.

Lyric has neither significant capital projects nor debt plans for the foreseeable future.

Outlook

The stable outlook reflects our expectation that Lyric will continue to successfully grow revenues from subscriptions, ticket sales and gifts, as well as build financial resources through philanthropic support and investment performance, with no significant debt issuance during the next two to three years.

What Could Change the Rating - UP

Growth of unrestricted financial resources to widen cushion relative to debt and operations.

What Could Change the Rating - DOWN

Additional borrowing without compensating growth of financial resources; deterioration in operating performance driven by a sustained decline in ticket or subscription sales without commensurate expense reductions.

Outstanding Debt

Series	Underlying Rating	Amount Outstanding ($000)
Series 1994 Variable /Fixed Rate Demand Revenue Bonds	Not Rated	62,200
Note Payable	Not Rated	1,446
Total Outstanding Debt		**63,646**

INTEREST RATE DERIVATIVES: Lyric has entered into an interest rate swap for a notional of $40 million to partially hedge its outstanding variable rate debt. In the swap Lyric receives 67% of one-month LIBOR and pays 3.8%. The swap matures in 2028. We believe any termination and liquidity risk is acceptable at Lyric's current A1 rating.

Strengths:

- Prominent cultural institution in Chicago, with excellent history of subscription revenues and renewals and attendance, coupled with strong fundraising that is reflected in three year average gift revenues of $27 million for fiscal year (FY) 2007.
- Strong governance and management, with good practices of disclosure, financial reporting and commitment to maintain at least balanced operating performance through establishment of financial reserves to fund future operations.
- Sizeable and growing financial resource base, with total financial resources reaching $168 million in FY 2007, much of which is unrestricted resulting in unrestricted resources covering debt twice over.
- Generally positive operating performance as calculated by Moody's, with a three-year average operating margin of 1.5% and annual operating cash flow of 11.2% for FY 2007.
- Manageable outstanding debt with no material identified debt plans for the foreseeable future.

Challenges:

- Competition with other cultural institutions and entertainment venues for audience supporting ticket sales as well as for philanthropic support.
- Unionized employees expose Lyric to frequent contract negotiation issues, including the potential for a strike shutting down all or part of an entire season.

Market Position/Competitive Strategy: Established Market Position As Prominent Cultural Organization In The Chicago Region With Strong Subscriber Trends

Moody's believes that Lyric Opera of Chicago's standing as a prominent Chicago cultural organization is a credit strength underpinning its A1 issuer rating, resulting in ongoing strong subscriber trends and ticket sales. Additionally we expect the opera company will continue to attract high profile board members who will continue to contribute philanthropically to the organization.

Founded in 1954, Lyric is one of the nation's leading opera companies, drawing internationally renowned singers and productions. Its home, the Civic Opera Building, is the second largest opera auditorium in North America. In addition to its annual program of eight opera productions, Lyric conducts a full outreach program to schools in the region to broaden students' exposure to the performing arts.

The competitive environment of cultural entertainment in the Chicago region requires innovative approaches to increase ticket sales. Drawing generally from a fifty mile region, Lyric has shown strong attendance trends, with a season's program generally running from an exceptional 93% to 103% of capacity. Subscriptions generally account for 70 to 80% of tickets each year, with at least 80% of subscriptions renewing. Both subscriptions and renewals are significantly higher than national averages for other major U.S. opera companies.

Marketing for each season is overseen by Lyric's marketing group whose goal is to continue audience development to both continue high subscription renewals and successfully market individual ticket sales. Each opera has a specific marketing campaign designed to reach targeted audiences, utilizing mail, telemarketing and other advertising means. Nationally, opera attendees are demographically older than those of other cultural institutions, averaging from 50-70 years in age. However, the age group has generally held steady, with younger audience members joining older attendees and enabling the Company to continue reaching its normally high capacity. With both the broad demographics in its audience as well as competition with other cultural institutions and other modes of entertainment, the Lyric develops its annual programs and refines its pricing strategy in an effort to improve demand for its performances and associated revenue streams.

A credit strength for the institution is the board and management team for Lyric. Although large with over 100 members, the Board of Directors has a clear committee structure and board members who provide active oversight of Lyric's operations, financial performance, and fundraising activities. In 2004, the Board reviewed the governance structure and implemented revisions to its practices and committee structure for more effective governance. The Board and management are strongly committed to disclosure of its results to the public, including easy access to its financial statements. Further, the Board of Trustees has conducted two major fundraising campaigns to grow endowment funds to provide a strong base to ensure a financially healthy organization over the longer-term.

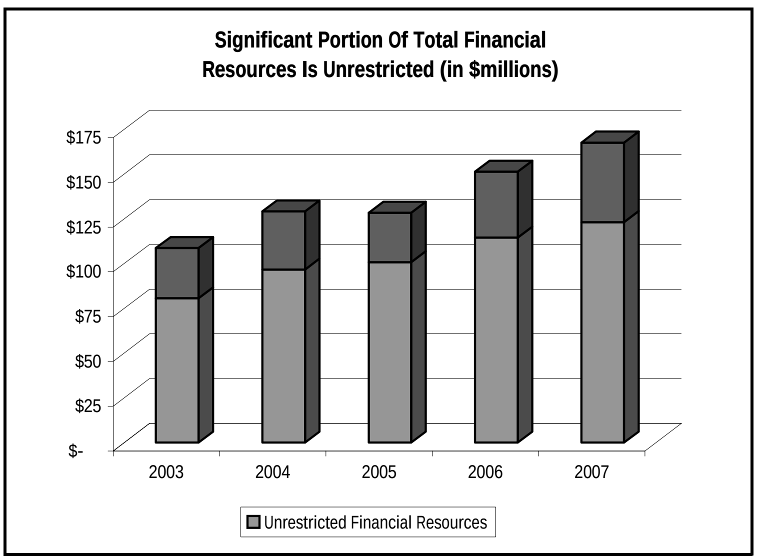
Operating Performance: Balanced Operating Performance Based On Sound Budgeting Assumptions And Financial Oversight

Lyric has shown generally balanced operating performance, with the three-year average operating margin of 1.5% for fiscal year (FY) 2007, as calculated by Moody's assuming a 5% endowment spend rate for the three year average of cash and investments. A spike in both revenues and expenses in FY 2005 is attributable to the Lyric's 50th anniversary year and related fundraising events. We note that the organization responded to the lower revenues in FY 2007 by a reduction in expenses with only a modest 2% increase in operating expenses, producing an annual margin of 2.5%.

The balanced performance reflects the budgeting process and oversight of management and the board to maintain at least balanced operating performance as measured by the organization. The organization budgets for a five year period as the performance seasons are determined, with the schedule of productions changed as necessary to balance anticipated ticket sales and production expenses. Additionally, with its high percentage of tickets sold through subscription, the Lyric experiences both good upfront cash flow at the beginning of its season as well as helping the budget planning process. Although the Lyric does not budget for depreciation, it does budget for both capital expenditures and additions to the maintenance reserve. Operating cash flow margin was 11% in 2007, with good average debt service coverage of 2.4 times. We expect Lyric to continue to produce balanced operating performance and adequate cash flow to meet any debt service needs.

One challenge for Lyric is the unionized employee base and the possibility of a strike, resulting in a "dark" performance season and lost revenue. There have been musician strikes in orchestras and other performance companies in the United States; however Lyric has only been affected by one "dark" season due to a strike in the late 1960's. Lyric will be negotiating a new multi-year contract during 2009 with its players.

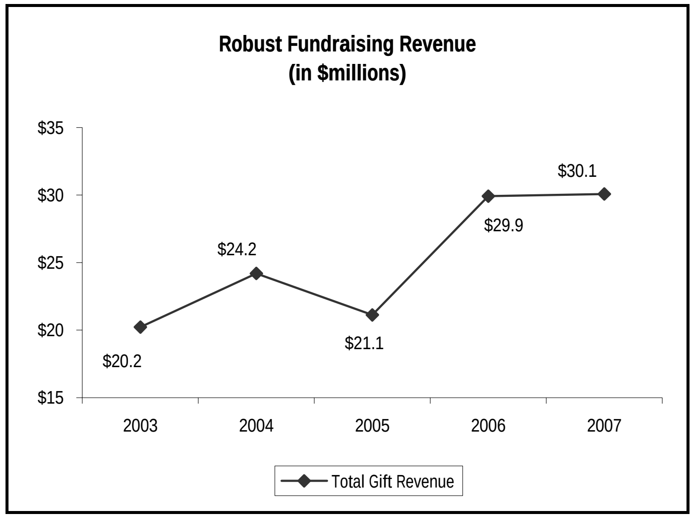
Balance Sheet Position: Financial Reserves Provide Good Financial Resource Coverage Of Debt; No Significant Identified Capital Plans In The Foreseeable Future



We believe Lyric Opera of Chicago will continue to maintain healthy financial resource levels, supported by good philanthropic support and investment performance. At fiscal year end (FYE) 2007, total financial resources were $168 million, up from $128 million in 2005. Favorably, over 73%, or $123 million, of resources were unrestricted for FY 2007, providing the Lyric considerable flexibility in dealing with fluctuations in its subscription and ticket sales, as well as in supporting debt service from reserves. For FY 2007, unrestricted resources covered total debt of $63.6 million by 1.9 times, representing good coverage. Total debt includes $62.2 million of variable rate bonds backed by a letter of credit from a bank group comprised of Northern Trust Company (rated Aa3/P-1), Harris N.A. (Aa3/P-1), and JPMorgan Chase Bank, N.A. (rated Aaa/P-1). Likewise, unrestricted resources provide good coverage of operating expenses at 2.1 times for FY 2007.

Lyric's investment portfolio is well diversified. At 6/30/07, the portfolio was held in 37% domestic equities, 18% international equities, 16% hedge funds, 16% in absolute return strategies, 9% in other alternatives, and 5% in fixed income securities. The organization has strong board oversight of the investment function and the portfolio, particularly with alternative investments.

Fundraising has been active, with three year average gift revenues of $27 million for FY 2007. Since the 1990s, Lyric has conducted three campaigns, all with strong Board support. In the 1990's, the "Building on Greatness" campaign successfully raised over $100 million to fund the renovations of the Opera House. The second campaign, "Look to the Future", celebrated Lyric's 50th anniversary and ran from 2002 to 2007. It raised nearly $54 million, largely in planned gifts to build a future endowment for the company. The current campaign is the "Campaign for Excellence" (CFE) that is to raise funds to build a reserve for current and future operating support. To date $36 million has been raised; it is the Board's current intent to limit a draw in any single year to $1.5 million plus funds to subsidize the radio performance broadcasts to bridge any operating deficits.



Lyric has neither significant capital projects nor debt plans for the foreseeable future. We note that the current debt structure has some credit risk as the Series 1994 bonds are variable rate backed by a bank letter of credit and have no principal amortization. It is the organization's intent to build resources through investment performance and gifts to provide the resources at the bonds' maturity. Lyric annually budgets funds for capital expenses. Additionally, it transfers funds to a maintenance reserve with the goal to provide sufficient internal resources to pay for expected capital replacement. The current balance is $3.5 million with plans to build the reserve over a thirty year period.

Lyric Opera of Chicago

	2003	2004	2005	2006	2007
Key Ratios:					
Total Direct Debt	$62,200	$62,200	$64,820	$64,248	$63,646
Unrestricted Financial Resources	$80,576	$96,646	$100,787	$114,526	$123,146
Expendable Financial Resources	$90,898	$110,920	$108,822	$131,468	$147,000
Total Financial Resources	$108,692	$129,124	$128,412	$151,267	$167,560
Capital:					
Unrestricted financial resources-to-direct debt (x)	1.3	1.6	1.6	1.8	1.9
Expendable financial resources-to-direct debt (x)	1.5	1.8	1.7	2.0	2.3
Total financial resources-to-direct debt (x)	1.7	2.1	2.0	2.4	2.6
Direct debt-to-cash flow (x)	12.4	8.1	17.3	19.1	14.7
Direct debt-to-total capitalization (%)	35.7%	32.0%	33.0%	29.4%	27.2%
Debt service to operations (%)	2.0%	1.2%	2.1%	4.2%	5.1%
Capital Investment to Operations (%)	0.7%	0.7%	2.0%	0.4%	2.4%
Age of plant (number of years)	7.9	8.7	9.8	10.6	11.9
Balance Sheet:					
Unrestricted financial resources-to-operations (x)	1.4	1.9	1.5	2.0	2.1
Expendable financial resources-to-operations (x)	1.6	2.2	1.7	2.3	2.5
Free expendable financial resources-to-operations (x)	0.5	1.0	0.7	1.2	1.4
Operating:					
Annual operating margin (%)	3.3%	8.3%	1.2%	0.7%	2.5%
Average operating margin (%)	67.8%	37.2%	4.3%	3.4%	1.5%
Operating cash flow margin (%)	10.5%	14.9%	7.1%	9.0%	11.2%
Actual debt service coverage (x)	5.3	13.0	3.4	2.1	2.2
Return on net assets (%)	-12.5%	18.2%	-0.1%	17.6%	10.5%
Return on financial resources (%)	-11.1%	18.8%	-0.6%	17.8%	10.8%
Contribution (% operating revenue):					
Admissions	45.0%	47.5%	45.1%	46.8%	44.7%
Investment Income	12.0%	12.1%	10.1%	11.9%	12.7%
Gifts	39.3%	35.5%	39.0%	36.6%	37.3%
Other	3.7%	4.9%	5.7%	4.7%	5.3%

Related Research

Special Comment:

Not-for-Profit Organization Medians for Fiscal Year 2006, September 2007 (104161)

Rating Methodology:

Moody's Rating Approach for Not-for-Profit Institutions, November 2004 (89653)

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Report Number: 105193

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