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MERLIN ENTERTAINMENTS: Liability Management Playbook for the Senior Notes

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Merlin Entertainments: Liability Management Playbook for the Senior Notes

The Bottom Line™:

- Merlin Entertainments has not yet confirmed how it plans to deal with its Senior Notes due 2027 – a particularly critical refinancing given that the group’s senior secured debt has springing maturity tied to the Senior Notes.
- We consider the potential for a liability management transaction that sees the Senior Notes refinanced with new debt that primes the group’s existing senior secured bonds.
- There is ample capacity for structurally senior debt of non-guarantors and effectively senior debt secured on non-collateral assets, providing flexibility for an “off the shelf” liability management transaction.
- There is also the potential for a dropdown to an Unrestricted Subsidiary.
- Positively, a blocker would thwart a double dip using an Unrestricted Subsidiary structure, but there could be scope for a double dip using a non-guarantor Restricted Subsidiary.
- The Restricted Payments covenant under the SSNs could be implicated in connection with repayment of the Senior Notes, but a wide carveout could make this a non-issue.

Overview

Merlin Entertainments is reportedly “[keeping its cards pretty close to its chest](#)” regarding plans to address the group’s Senior Notes due 2027, leaving creditors to speculate as to what may lie ahead if a vanilla refinancing isn’t possible. While there is still a fair amount of time on the clock, there is no small amount of pressure on the refinancing, as the maturity of approximately €4 billion of other debt will spring forward to August 15, 2027 (or July 15, 2027, in the case of the group’s revolving credit facility) if any of the Senior Notes remain outstanding at that time.

According to our sister company LevFin Insights, some investors have posited that a sale and leaseback transaction might be used to fund repayment of the senior notes, while others suspect that a liability management transaction could be in the offing. We consider the latter possibility in this report – namely, the potential for a transaction that sees the Senior Notes refinanced with new debt that primes the group’s existing senior secured notes in one or more respects.¹

¹ As we explained in a previous report, there is ample potential capacity to refinance the senior notes with debt that ranks equally with the group’s existing senior secured notes. See [Merlin Entertainments: Will the SSNs Permit the Senior Notes to be Refinanced with Senior Secured Debt?](#) In this report, we focus on debt that would sit ahead of, rather than alongside, the senior secured notes.

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Merlin Entertainments Capital Structure

The Merlin Entertainments group has several series of bonds outstanding.

Senior Secured Notes (the “SSNs”)

- €700 million of 7.375% Senior Secured Notes due 2030 (the “**2030s**”) and \$410 million of 8.375% Senior Secured Notes due 2032 (the “**2032s**”) issued by Motion Finco S.à r.l. (the “**Lux Issuer**”)
- \$500 million of 7.375% Senior Secured Notes due 2031 (the “**2031s**”) issued by Merlin Entertainments Group U.S. Holdings Inc., a subsidiary of the Company (the “**US Issuer**”)

The SSNs are guaranteed on a senior basis by Motion Acquisition Limited (the “**Company**”) and certain of its subsidiaries, and they are secured by first-ranking liens on (1) shares of the Company, the relevant issuer, and the subsidiary guarantors (other than Gardaland S.r.l.), (2) certain bank accounts and intragroup receivables, and (3) the assets of the Company, the US Issuer, and US subsidiary guarantors (collectively, the “**Collateral**”).²

Senior Notes (the “Senior Notes”)

- \$410 million of 6.625% Senior Notes due 2027 and €370 million of 4.5% Senior Notes due 2027 issued by Motion Bondco DAC

The Senior Notes are guaranteed on a senior basis by Motion Midco Limited and on a senior subordinated basis by the Company, the Lux Issuer, the US Issuer, and the SSNs’ subsidiary guarantors – making them subordinated debt of several entities in the SSNs’ restricted group.

The Company also has a senior facilities agreement (the “**SFA**”) that includes a €1,020 million term loan B, a \$1,371 billion term loan B, and a £428 million revolving credit facility. As the SFA is a private document, we don’t address its covenants in this report (but note that the Company would be required to comply with the SFA’s terms in connection with any liability management transaction).

Liability Management Transactions – A Brief Recap

As a brief recap, the principal forms of liability management transactions (“**LMTs**”) seen in the European high yield market to date include the categories listed below. For more detail on recent examples, see our recent [European Liability Management Transactions: Quarterly Update Through Q4 2025 and Primer](#).

- ***Unrestricted Subsidiary dropdown transactions***

In a dropdown transaction, a company designates and/or transfers assets to an Unrestricted Subsidiary (or sells them to an Unrestricted Subsidiary, as [Stonegate](#) and [Pfleiderer](#) did), which then incurs structurally senior debt without being constrained by the existing bond covenants.

- ***Uptiering transactions***

Uptiering transactions involve a reshuffling of payment and/or lien priorities so that existing

² The US Issuer guarantees the 2030s and 2032s, and the Lux Issuer guarantees the 2031s.

debt holders end up with new debt that is “better” in one or more respects. In the context of a European bond, the new debt might be secured on the bond collateral on a higher-ranking basis, or it could be secured on assets that do not secure the bonds. The new debt might also be issued by a non-guarantor Restricted Subsidiary, making it structurally senior to the existing bonds.

- **Double dips**

So-called “double dips” give certain creditors two claims against an issuer. Sometimes this means separate claims against the same guarantee and collateral package for other secured debt. In other cases (referred to as “pari plus” transactions), creditors have sole access to specific assets and credit support, on top of shared access to the guarantee and collateral package for other secured debt.

Structure varies, but a double dip generally involves an Unrestricted Subsidiary or non-guarantor Restricted Subsidiary issuing new debt and loaning the proceeds to the existing bond issuer via an intercompany loan. The subsidiary’s debt is typically secured and/or guaranteed, as is the intercompany loan – meaning that the subsidiary’s lenders have both a direct claim under the subsidiary debt and an indirect claim under the intercompany loan.

Sometimes, LMTs involve a combination of the transactions described above, as issuers seek ever more creative ways to bolster liquidity and/or refinance debt within the confines of their existing bond covenants.

Unrestricted Subsidiary Dropdown Transactions

In order to designate and/or transfer assets to a Restricted Subsidiary as an Unrestricted Subsidiary, the Company would need investments capacity under the Restricted Payments covenant or “Permitted Investments” definition equal to the fair market value of the subsidiary’s net assets (proportionate to the Company’s equity interest in the entity) or the fair market value of the assets transferred, as applicable.³

The material sources of investments capacity under the SSNs are listed in the table below. These include “general purpose” Restricted Payments baskets and carveouts (which can be used for investments as well as other types of Restricted Payments) and Permitted Investments baskets and carveouts (which are specifically intended for investments). The SSNs do not include a J. Crew blocker restricting investments.

Note that the SSNs include a highest watermark EBITDA provision, which means that the fixed component of any basket with an EBITDA-based grower will be automatically increased to match the relevant percentage of EBITDA whenever the grower would provide higher capacity (with no subsequent reduction if EBITDA declines). This could mean that the fixed amounts presented in this report, all of which are taken from the preliminary offering memorandums for the various offerings of SSNs, are now different under one or more series.

³ The requirement to comply with the Restricted Payments covenant (i.e., the need for investments capacity) in connection with designation of an Unrestricted Subsidiary does not apply if the entity’s total consolidated assets are £1,000 or less.

Ratio-Based Carveout	
Leverage-based Permitted Investments carveout	Unlimited investments subject to a pro forma 5.5x Consolidated Total Debt Ratio test
Other Capacity	
Restricted Payments build-up basket <i>Use of the basket for investments is subject to a no payment or insolvency Event of Default condition, but no ratio test applies</i>	<ul style="list-style-type: none"> • 50% of Consolidated Net Income from September 3, 2019 (subject to a zero floor) • Equity proceeds, subordinated shareholder funding, capital contributions, declined Asset Sale offer amounts, and certain returns on investments since November 18, 2019 • Greater of £241 million and 40% of LTM EBITDA starter amount
General Restricted Payments basket	Greater of £241 million and 40% of LTM EBITDA
Excluded Contributions	Amount of Excluded Contributions received since November 18, 2019 or amount of cash proceeds received from sale of property financed with Excluded Contributions since November 18, 2019
Investments in Unrestricted Subsidiaries	Greater of £121 million and 20% of LTM EBITDA
General Permitted Investments basket	Greater of £241 million and 40% of LTM EBITDA
Similar Business Permitted Investments basket <i>The term "Similar Business" does not exclude Unrestricted Subsidiaries</i>	Greater of £241 million and 40% of LTM EBITDA
Joint venture investment basket <i>The term "joint venture" is not defined and could include part-owned Unrestricted Subsidiaries</i>	Greater of £181 million and 30% of LTM EBITDA

The fixed components alone in the table above provide aggregate capacity of £1,266 million. Of course, the Company's actual capacity at any given time will depend on the amount of Restricted Payments and/or investments that are classified under the relevant provision(s) on the calculation date (as well as the highest watermark provision described above).

Note that if a Guarantor is designated as an Unrestricted Subsidiary, its guarantee of the Notes is automatically released, and any Collateral it has granted to secure the Notes will be released. Similarly, if other Collateral assets are transferred to an Unrestricted Subsidiary, the liens securing the Notes are automatically released.

Asset Sale Unrestricted Subsidiary Dropdowns

Although there appears to be generous investments capacity for asset transfers to Unrestricted Subsidiaries, we highlight that a dropdown could instead be structured as a *sale* of assets to an Unrestricted Subsidiary (following the path trodden by [Stonegate](#) and [Pfleiderer](#)), rather than as a contribution requiring investments capacity, with the Unrestricted Subsidiary funding the consideration with the proceeds of new debt.

If the Company used such a structure, the Asset Sales covenant would apply to the transaction. That covenant doesn't explicitly permit use of disposal proceeds to fund repayments of the Senior Notes. However, for the purposes of the Asset Sales covenant's application of proceeds provision, the "Asset Sale" definition excludes any Asset Sale where the proceeds are used to make Restricted Payments. The Company might rely on this carveout to send the sale proceeds up to its parent using Restricted Payments capacity (discussed below).

Uptiering Transactions

In an uptiering transaction, the Company might look to refinance the Senior Notes with:

- structurally senior debt of a non-guarantor Restricted Subsidiary,
- effectively senior debt of the Company secured on assets that do not secure the SSNs, or
- super senior debt of the Company secured on the collateral that secures the SSNs.

As we discuss in more detail below, the SSNs provide ample capacity for the first two types of debt listed above, creating flexibility for an "off the shelf" LME. Super senior debt, by contrast, has some constraints.

Potential Capacity for Structurally Senior Debt of a Non-Guarantor Restricted Subsidiary

Non-guarantor Restricted Subsidiaries are permitted to incur debt under all of the Debt covenant baskets and carveouts, with no sub-limit or cap, opening the door to substantial structurally senior debt.

We list the material general purpose debt baskets and carveouts below.

Ratio-Based Carveout	
Ratio debt	<ul style="list-style-type: none">• Senior secured debt to a 4.75x Consolidated Senior Secured Debt Ratio (net debt secured on the Collateral on a pari passu or senior ranking basis to LTM EBITDA)• Junior lien debt to either a 6x Consolidated Total Secured Debt Ratio (net debt secured on the Collateral to LTM EBITDA) or a 2x Fixed Charge Coverage Ratio (EBITDA to fixed charges)• Other debt to either a 6x Consolidated Total Debt Ratio (net total debt to LTM EBITDA) or a 2x Fixed Charge Coverage Ratio
Other Capacity	
Credit Facilities basket (headroom over SFA loans)	£659.7 million plus greater of £601 million and 100% of LTM EBITDA

and commitments) ⁴	
General debt basket	Greater of £241 million and 40% of LTM EBITDA
Pick your poison debt basket	200% of the amount of Restricted Payments capacity under the: <ul style="list-style-type: none"> • Build-up basket (including the £241 million / 40% of LTM EBITDA starter amount), • £241 million / 40% of LTM EBITDA general Restricted Payments basket, • Annual management equity purchase basket (£30 million per year increasing to £60 million after an underwritten public equity offer), • Post-equity offer dividends basket, and • Excluded Contributions basket
Equity-credit debt carveout	200% of equity proceeds, subordinated shareholder funding, and capital contributions since November 18, 2019
Non-guarantor debt basket	Greater of £211 million and 35% of LTM EBITDA

The aggregate capacity under fixed amounts alone in the table above is far in excess of the approximately £625 million (equivalent) of outstanding Senior Notes, suggesting plenty of capacity to refinance the Senior Notes with structurally senior debt. As above, actual capacity at any given point will depend on the amount of outstanding debt classified under the relevant provision(s).

Additionally, the practical risk of structurally senior debt will depend in part on the composition of the non-guarantor group and the value of those entities' assets. Guarantor coverage was relatively robust when the most recent series of SSNs was issued in February 2025. According to the preliminary offering memorandum for the 2032s, the Guarantors accounted for 77% of consolidated revenue, 78% of consolidated EBITDA, and 69% of consolidated assets (excluding brand values, goodwill, minority equity investments, and investments in wholly-owned subsidiaries) as of and for the 52 weeks ended September 28, 2024. Positively, while asset transfers to non-guarantor Restricted Subsidiaries are permitted under the standard Permitted Investments carveout for investments in restricted group members, any Collateral assets transferred to non-guarantors must remain pledged.

However, there could be wiggle room when it comes to releasing existing guarantees (which would permit the release of liens over the assets and shares of the relevant entity). First, while a 90% consent threshold applies to "modification" of guarantees provided by the Company or significant subsidiaries, there is room for argument as to whether a *release* of a guarantee constitutes a *modification*. Second, the amendment provision doesn't apply to guarantors that are not significant subsidiaries.

In addition, note that non-guarantors are not subject to the Liens covenant, meaning that they could secure any debt that they incur.

Potential Capacity for Super Senior Debt

The SSNs currently permit some super senior debt, but only on a contingent basis. If the term loan Bs under the SFA have been fully repaid (other than commitments of a lender that has declined prepayment), then debt up to the greater of £601 million and 100% of LTM EBITDA incurred under certain limbs of the Credit Facilities debt basket (specifically, the £400 million limb and the greater of

⁴ Figures are based on a £1 to \$1.3404 exchange rate and a £1 to €1.1560 exchange rate.

£601 million and 100% of LTM EBITDA limb) can be secured on the Collateral on a super senior basis.

However, it might be possible to expand the scope for super senior debt with simple majority consent. As is [typical for European high yield bonds](#), the SSNs set a 90% consent threshold for changes to certain fundamental terms, but increases of the amount of permitted super senior debt, and/or changes to the conditions that apply before that debt can be incurred, are not included in the list. A slightly heightened 66²/₃% consent threshold applies for changes in provisions “*dealing with Collateral or application of trust proceeds of the Collateral with the effect of releasing the Liens on all or substantially all of the Collateral*” and for materially adverse changes to the priority of the liens securing the Notes. However, it could be challenging to establish that removal of the term loan refinancing condition and/or an upsize in the amount of debt that can be secured on a super senior basis would have the effect of releasing the existing liens on the Collateral securing the Notes or changing their ranking. Absent such an argument, those changes could be made with simple majority consent.

In relation to amendments, note that the SSNs do not appear to contain a Payments for Consent covenant requiring consent fees or other consideration / inducement for an amendment to be offered to all holders under the applicable series of the SSNs.

Potential Capacity for Effectively Senior Debt Secured on Non-Collateral Assets

The Company and Guarantors are permitted to secure all of the non-ratio-based debt baskets described above on non-Collateral assets (in the case of the non-guarantor debt basket, the liens are limited to assets of non-guarantors). In addition, a leverage-based Permitted Liens carveout allows liens securing any permitted debt to a 6x Consolidated Total Debt Ratio, and a general liens basket allows liens securing any permitted debt to the greater of £181 million and 30% of LTM EBITDA. In other words, there is ample potential to replace the Senior Notes with effectively senior debt.

Double Dips

As explained above, a double dip generally involves an Unrestricted Subsidiary or non-guarantor Restricted Subsidiary loaning the proceeds of new debt to the existing bond issuer via an intercompany loan. The new debt typically benefits from the same credit support as the existing debt, and the intercompany loan also benefits from security and guarantees.

Unrestricted Subsidiary Double Dips

Positively, the SSNs include an Unrestricted Subsidiary double dip blocker. Under the “Unrestricted Subsidiary” definition, a subsidiary can’t be designated as an Unrestricted Subsidiary if it or any of its subsidiaries owns equity or debt of, or holds a lien on, property of the restricted group. Further, if at any time after designation an Unrestricted Subsidiary would fail to meet that requirement, it can no longer be an Unrestricted Subsidiary. This would thwart the intercompany loan element of a double dip transaction.

Non-Guarantor Double Dips

By contrast, if a non-guarantor Restricted Subsidiary incurs the new debt, a double dip could be

possible.⁵

Intercompany Loan

The SSNs include a standard carveout for debt between or among members of the restricted group, and the conditions that apply under that carveout are weak.

- First, the carveout specifies that if the issuer or a subsidiary Guarantor borrows from a non-guarantor Restricted Subsidiary under this carveout, the loan must be subordinated in right of payment to the SSNs or guarantee of the SSNs, as applicable. However, that condition does not apply if the *Company* borrows from a non-guarantor Restricted Subsidiary, which could facilitate a double dip.
- Additionally, the carveout does not require the intercompany debt to be unsecured, meaning that the Company could secure debt owed to a non-guarantor Restricted Subsidiary that is incurred under this carveout. While there is no Permitted Collateral Liens clause that would permit the intercompany debt carveout to be secured on the Collateral, a standard Permitted Liens carveout for intercompany liens would allow the loan to be secured on non-Collateral assets.

Alternatively, the Company or a Guarantor could use any other available capacity under the Debt carveout to incur and secure the intercompany loan – see the table of material general purpose debt baskets and carveouts above. As noted, all those baskets can be secured on non-Collateral assets. Additionally, all of these baskets other than the non-guarantor debt basket can be secured on the Collateral.

Credit Support for the New Non-Guarantor Debt

The SSNs include a standard carveout for guarantees of permitted debt. In other words, if there is capacity for a restricted group member to incur new debt, other restricted group members are allowed to guarantee that debt. That could permit the Company and Guarantors to guarantee the intercompany loan as well as the new debt incurred by the non-guarantor Restricted Subsidiary.

There would also need to be capacity under the Liens covenant to secure the intercompany loan and new non-guarantor debt. As noted, all of the general purpose debt capacity described above can be secured on non-Collateral assets. Additionally, Ratio debt and all of the non-ratio-based baskets (other than the non-guarantor debt basket) described in the table can be secured on the Collateral.

Restricted Payments Covenant Considerations

The Restricted Payments covenant under the SSNs could be implicated in connection with repayment of the Senior Notes in one or more ways.

The term “Indebtedness” includes guarantees of another entity’s debt, and the term “Subordinated Indebtedness” definition includes any Indebtedness of a Guarantor that is subordinated in right of payment to its guarantee of the SSNs. As such, the term “Subordinated Indebtedness” encompasses the subordinated guarantees of the Senior Notes provided by the Company, Lux Issuer, US Issuer,

⁵ See *Potential Capacity for Structurally Senior Debt of a Non-Guarantor Restricted Subsidiary* for a discussion of capacity to incur and secure debt of non-guarantor Restricted Subsidiaries.

and other Guarantors of the SSNs. Further, as is typical, redemption, repurchase, or defeasance of any Subordinated Indebtedness more than a year prior to maturity is a “Restricted Payment” under the SSNs, meaning the Company would need Restricted Payments capacity to directly repurchase (or fund the redemption or repurchase of) the Senior Notes prior to November 15, 2026.

Additionally, because the Restricted Payments limits dividends and distributions to the Company’s shareholders, the Company would need Restricted Payments capacity to upstream funds to its parent to fund redemption or repurchase of the Senior Notes at any time.

See [Merlin Entertainments: Will the SSNs Permit the Senior Notes to be Refinanced with Senior Secured Debt?](#) for a description of the key sources of Restricted Payments capacity. While we won’t repeat the full list here, we call attention to Restricted Payments carveout (15)(i), which permits uncapped dividends, distributions, or loans by the Company to a parent to pay “*amounts in respect of Indebtedness of such direct or indirect parent company of the Company which is guaranteed by the Company or a Restricted Subsidiary.*” The Company’s direct parent (Motion Midco Limited) guarantees the Senior Notes, meaning they are “Indebtedness” of that entity. Accordingly, carveout (15)(i) could be available to upstream funds to address the Senior Notes.⁶

⁶ Further, note that Unrestricted Subsidiaries are not subject to the Restricted Payments covenant under the SSNs, meaning that covenant would not limit their ability to fund repayment of the Senior Notes.

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