Entertainment & Leisure
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COMPANY UPDATE / ESTIMATE CHANGE / PRICE TARGET CHANGE

Cedar Fair Entertainment Co.

FUN — NYSE — Long-term Buy-3

2Q Results Up, But a Bit Below Our Expectation

Key Metrics

FUN - NYSE (as of 8/2/17)		$65.86
Two Year Price Target		$78.00
52-Week Range		$56.23 - $72.56
Shares Outstanding (mil) (basic)		56.1
Market Cap. ($mil)		$3,693
3-Mo. Average Daily Volume		142,660
Institutional Ownership		57%
Total Debt ($mil) (6/17)		$1,675
Total Partners' Equity ($mil) (6/17)		($60)
Book Value/Share (6/17)		NM
Price/Book Value		NM
Annual Cash Distribution & Yield ~	$3.42	5.2%
Adjusted EBITDA Margin (TTM ended 6/17)		37%

EPS FY 12/31 (GAAP-based figures)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	($0.87)		($1.16) A		
2Q	$1.03		$0.55 A		
3Q	$3.10	$3.40	$3.51		
4Q	($0.12)	$0.05	$0.07		
Year	$3.14	$3.45	$3.10	$3.80	$3.65
P/E	21.0x		21.2x		18.0x

Note: Quarterly EPS figures may not add to annual figure due to rounding and the impact of quarterly results fluctuating between profits and net losses.

Revenue ($mil)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	$58		$48 A		
2Q	$388		$393 A		
3Q	$650	$680	$681		
4Q	$192	$211	$213		
Year	$1,289	$1,340	$1,335	$1,395	$1,390

Company Description: *Cedar Fair Entertainment Co. owns and operates eleven amusement parks, three water parks, and five hotels. Cedar Fair is structured as a limited partnership and as such has historically paid the majority of cash flow to unit holders in the form of quarterly cash distributions. Investors receive an annual K-1 statement to help determine their tax liability.*

Investment Highlights

- **Key 2Q metrics exceeded year ago levels but were below expectations.** Revenues increased 1%, while adjusted EBITDA (earnings before interest, taxes, depreciation & amortization) rose 2%. Attendance rose 2% while in-park per capita spending was flat. We expected slightly higher figures, considering the Easter/Spring Break period occurred in April (2Q) this year compared to March (1Q) last year.
- **Several factors likely impacted the quarter.** Adverse weather conditions were prevalent in some of FUN's markets, while increases in season pass sales likely crimped per capita spending (admissions and in-park purchases such as food, beverages, and premium services). We believe this is a natural side effect of having season pass holders represent a greater percentage of park guests.
- **We remain optimistic on the 2H outlook.** July was a solid month (per company-cited statistics), while 4Q will bring an increase in park operating days with more parks participating in events at Christmas time. This is in addition to expected organic growth from the established Halloween season throughout October. New attractions, well-managed operations, growing cash flow, and a decent economy remain key factors in our thesis. We expect record financial results in 2017 and again in 2018, yet we have slightly lowered our estimates for these years to be conservative.
- **We maintain our LT Buy rating, while our two-year price target is lowered by $2 to $78 per unit based on our updated financial model.** We believe the company's future is bright, with the potential for adjusted EBITDA growth of over 4% in most years, without acquisitions. Our price target reflects a valuation similar to the current level. Based on the current unit price, we believe annualized total return potential, including cash distributions, is 14%. Our Suitability rating remains 3.

Note Important Disclosures on Pages 6-7
Note Analyst Certification on Page 6.

Exhibit 1
Second Quarter Results (figures in millions except percentages and per share data)

	Three Months Ended			Six Months Ended		
	6/25/17	6/26/16	% chg.	6/25/17	6/26/16	% chg.
Admissions	$214.9	$214.3	0.3%	$237.4	$243.0	(2.3%)
Food, Merchandise and Games	133.2	129.9	2.5%	151.4	151.7	(0.2%)
Accommodations and Other	44.8	43.8	2.2%	52.3	51.8	1.0%
Net Revenues	392.8	388.0	1.2%	441.1	446.5	(1.2%)
Cost of Food, Merch., Games Rev.	34.2	34.6	(0.9%)	39.7	40.8	(2.6%)
Operating Expenses	160.4	157.5	1.8%	244.7	242.1	1.0%
Selling, General & Admin. Exp.	51.9	51.4	1.0%	79.5	77.0	3.2%
Depeciation & Amortization	50.8	48.3	5.2%	56.2	53.5	5.0%
Nonrecurring Items	0.2	1.4	(87.0%)	1.7	4.0	(57.5%)
Operating Income	$95.3	$94.9	0.5%	$19.4	$29.0	(33.3%)
Adjusted EBITDA ~	**$149.7**	**$147.2**	1.7%	**$84.2**	**$91.8**	(8.2%)
Net Income (Loss)	$31.4	$58.0	(45.9%)	($33.4)	$9.5	N/A
N.I. (Loss) Per Diluted Unit	$0.55	$1.03	(46.6%)	($0.60)	$0.17	N/A
Avg. Number of Units Outst.	56.6	56.4	0.4%	56.0	56.4	(0.7%)
As a % of Net Revenues:			**bp chg.**			**bp chg.**
Operating Expenses	40.83%	40.60%	23	55.47%	54.23%	123
Selling, General & Admin. Exp.	13.20%	13.24%	(4)	18.02%	17.24%	77
Adjusted EBITDA	38.11%	37.94%	17	19.09%	20.55%	(146)

~ Earnings before interest, taxes, depreciation, amortization, and other non-cash items.

Source: Cedar Fair Entertainment Co. Note: December fiscal year

Additional comments on 2Q. The second quarter does not represent the contribution to annual results that the crucial 3Q does, but it is still important since it contains the start of summer vacations, especially for families with school-age children. While we expected a slightly higher increase in 2Q attendance than the reported 2% figure, we do not believe there are any fundamental problems at FUN's parks. Some areas had adverse weather, and some areas likely had weaker economies than others. Collectively, the portfolio of amusement parks, water parks, and hotels should serve the company well over a complete operating season, in our view.

Financial condition. The company is leveraged, consistent with its operating history and somewhat of an industry norm. Total debt at 6/25/17 was $1.675 billion, comprised of $936 million in fixed rate notes and $739 million of variable rate term debt (converted to fixed rate debt through the use of swap agreements). In April 2017, the company completed a refinancing of its debt structure. This included issuance of fixed rate notes and term debt to replace previous debt, as well as a $275 million revolving credit facility. This extended some maturities and improved the company's financial flexibility to act on growth initiatives. Total assets at 2Q end were $2.109 billion, including cash of $101 million. Partners' equity, reflective of seasonality and the leveraged capital structure, was a negative $60 million.

We remain comfortable with FUN's financial condition. The consolidated leverage ratio (long-term debt divided by trailing adjusted EBITDA) has gradually declined in recent years as EBITDA has grown. This figure was 3.5x at the end of 2Q, and management expects a 3.4x ratio at year end. Debt covenants are being comfortably met and interest coverage is sufficient, in our view. Perhaps most importantly, debt service has not impeded capital spending, pursuit of growth initiatives, or cash distributions in recent years nor do we expect it to in the coming years.

Cash distribution update. In November 2016, FUN's Board approved a 4% increase to the cash distribution, taking the quarterly rate to $0.855 per unit. The current annualized rate of $3.42 per unit produces a yield of 5.2% based on the recent closing unit price. Going forward, we expect similar increases in the rate at about the same time of a given year. This is possible, in our view, due to free cash flow after capital expenditures and interest payments, both of which are at considerable levels. We consider FUN's cash distribution an important part of total return potential.

Outlook. We were disappointed with 2Q results but not alarmed by them. We are encouraged by solid business in July and catalysts for further improvement in the remaining five months of the year (which generally contribute about 40% of annual revenues). Booked group events, normalized weather, some pent-up demand from potentially postponed trips, and upcoming holiday offerings should result in improved results in 2H compared to 1H. Indeed, our annual estimate for adjusted EBITDA requires 2H growth of 5.5% compared to the 8% decline in 1H. However, we believe this outlook is reasonable. The company has a long history of enviable results and we believe the quality of the assets (parks and hotels) and the management team are better now than at any point in the company's history. Management stated that reaching its annual adjusted EBITDA goal of $500 million by the end of 2017 (one year earlier than its original target of 2018) will be challenging, but not impossible. We predict a shortfall, but a minor one.

Based mainly on our confidence in 2H business and good cost containment, we are making only slight cuts to our annual financial estimates, including revenues and adjusted EBITDA. Our 2017 adjusted EBITDA estimate is $495 million, down $8 million from our previous figure and representing growth of approximately 3% from 2016. We project improved growth of 5% in 2018. We consider 4% adjusted EBITDA growth to be somewhat of a benchmark, given variables such as attendance, premium services, season pass and dining plans, and pricing. We believe annual increases in the cash distribution rate are also likely, with announcements coming around November of each year.

Unit price and valuation. As noted in Exhibit 2 below, Enterprise Value (using year-end net debt figures) divided by our estimate of 2017 adjusted EBITDA is 10.5x, while the valuation on our projections of 2018 adjusted EBITDA and net debt is 9.9x. This translates to an approximate 10.2x multiple on projected twelve-month forward adjusted EBITDA.

As a matter of information, we note that at the time of our previous research report on FUN, dated 5/3/17, the multiple on projected forward adjusted EBITDA was 10.6x and one year ago the multiple was 9.6x. Our rating on FUN was Long-term Buy at both of those points, just as it is now.

Exhibit 2
Valuation Analysis (figures in millions except ratios and per share data)

		2018E	2017E	2016	2015	2014	2013
Share Price (8/2/17)	$65.86						
Recent Share Count, diluted	56.6						
Market Capitalization	$3,727.5						
Total Debt, year end, net of cash		$1,395.0	$1,465.0	$1,414.0	$1,419.0	$1,427.0	$1,402.6
Enterprise Value (EV)		$5,122.5	$5,192.5	$5,141.5	$5,146.5	$5,154.5	$5,130.1
Adj. EBITDA (exclud. nonrecurring items)		$520.0	$495.0	$481.2	$459.2	$431.3	$425.4
% chg.		5.1%	2.9%	4.8%	6.5%	1.4%	8.8%
EV / Adj. EBITDA		**9.9x**	**10.5x**	**10.7x**			

Note: Valuation multiples are based on current market capitalization figures and projected year-end net debt levels.

Source: Cedar Fair Entertainment Co. and Hilliard Lyons estimates Note: December fiscal year

Although current valuations are slightly above levels that existed a year ago, we view fundamentals as being stronger today. Existing assets are performing well, in our view, and new assets (such as water park additions and a new sports complex for hosting amateur/youth events) and new endeavors (such as Christmas events planned at several parks) add potential for incremental growth. The current 10.2x multiple on projected twelve-month forward adjusted EBITDA compares to a recent historical range that we estimate at 8-12x.

We feel the current multiple is justified by strong fundamentals (seven consecutive years of record results), an encouraging cash flow outlook, and favorable cash distribution decisions. We believe the current valuation is reasonable and could be maintained in future years if adjusted EBITDA growth meets or beats our projected annualized rate of 4.5%.

Opinion. We maintain our Long-term Buy rating on FUN and believe the units have appeal for total return potential or as a pure income vehicle. Our two-year price target is $78 per unit, $2 below our previous figure due to minor changes to our financial model. In determining our target, we assume a multiple of 10.4x our projection of forward adjusted EBITDA two years from now compared to the 10.2x multiple on our current projection of forward adjusted EBITDA. We feel this is reasonable based on a favorable fundamental outlook, our confidence in new incremental revenue streams, and the historical valuation range. Based on the current unit price and our target, annualized total return potential is 14% including expected cash distributions.

We consider cash distributions adequately covered by cash flow and believe modest annual increases are likely. We view the current yield of 5.2% favorably and consider future cash distributions a significant part of expected total return.

Suitability. Our Suitability rating of 3 (see definitions in the Important Disclosures section) is primarily based on a leveraged balance sheet, with other factors being market capitalization, the discretionary nature of the business, and our perception of FUN's overall risk profile.

Risks. Factors that could impact Cedar Fair's results and therefore our profit projections include general economic conditions, overall levels of leisure spending, pricing power, the competitive landscape, weather conditions, the pace of new project construction, potential asset sales, prevailing interest rates, and other factors. We believe swings in gasoline prices can affect attendance levels to some degree but this factor has historically had more of an impact on in-park spending. Also, cash flow utilization (capital spending, debt reduction, and cash distributions) may be subject to investor scrutiny.

As a limited partnership, Cedar Fair has historically paid out the majority of available cash flow to unit holders in the form of cash distributions. Cedar Fair does not pay federal income tax as a corporation or small business would. In 1998, however, the partnership became subject to a relatively small tax on gross income that allows FUN to retain the limited partnership status. Investors, particularly long-term holders, may be subject to a tax on their pro rata share of the partnership's taxable income. The income allocated to each unit holder is based on the number of units held and the unit acquisition date. Information needed for filing federal, state, and local tax returns is presented annually to the unit holder on a Schedule K-1 form.

This entity is classified as a Partnership for US income tax purposes. Tax information is provided by the Partnership directly to the investor on Form 1065, Schedule K-1. Please discuss the tax implications of this investment with a qualified tax advisor.

Annual yield is calculated by dividing the distribution amount by the current price of the security. All or a portion of the Company's distributions are paid from the Partners Capital Account at the Company's discretion. Actual classification for income tax purposes is reported on IRS Form 1065, Schedule K-1 and is provided directly to the investor by the Company. For U.S. income tax purposes, the Company will make a determination regarding all allocable tax information after calendar year end on Form 1065, Schedule K-1. Partnership interests held in tax-exempt accounts including retirement plans and Individual Retirement accounts may be subject to Unrelated Business Income Tax (UBIT). We urge each investor to consult with his or her own tax advisor to determine the tax consequences of ownership of partnership interests, including any state, local, or foreign tax considerations.

Exhibit 3
GAAP-based Income Statement (figures in millions except percentages and per share data)

	2018E	2017E	2016	2015	2014
Admissions	$773.0	$740.0	$716.2	$687.4	$661.5
Food, Merchandise and Games	435.0	421.0	407.7	398.0	365.5
Accommodations and Other	182.0	174.0	164.9	150.3	132.6
Net Revenues	1,390.0	1,335.0	1,288.7	1,235.8	1,159.6
% change	4.1%	3.6%	4.3%	6.6%	2.2%
Cost of Food, Merch, Games	116.0	113.0	106.6	104.8	95.2
Operating Expenses	583.2	561.0	538.9	517.6	496.1
SG&A Expenses	195.0	187.0	181.8	171.5	156.9
Depreciation & Amort.	141.1	138.0	131.9	125.6	124.3
Gain on Sale of Other Assets	0.0	0.0	0.0	0.0	(0.9)
Impairment/Retir. of Fixed Assets	4.5	2.0	12.6	20.9	9.8
Operating Income	350.2	334.0	316.9	295.3	278.3
Interest Expense, net	84.2	85.0	83.9	86.8	96.3
Net Effect of Swaps	0.0	6.0	(1.2)	(6.9)	(2.1)
Loss on Early Exting. of Debt	0.0	24.0	0.0	0.0	29.3
Unrealized Currency Loss (Gain)	0.0	(6.0)	(14.6)	81.0	40.9
Other Expenses (Income)	(0.2)	(0.1)	(0.2)	(0.1)	(0.0)
Income Before Taxes	266.2	225.1	249.1	134.4	114.0
Provision for Taxes	58.6	49.5	71.4	22.2	9.9
Net Income	$207.6	$175.6	$177.7	$112.2	$104.1
Net Inc. Per Diluted Unit	$3.65	$3.10	$3.14	$1.99	$1.86
Avg. Diluted Units Outstanding	56.8	56.7	56.6	56.4	56.0
Adjusted EBITDA	**$520.0**	**$495.0**	**$481.2**	**$459.2**	**$431.3**
% change	5.1%	2.9%	4.8%	6.5%	1.4%
As a % of Net Revenues:					
Cost of Food, Merch, Games	8.35%	8.46%	8.27%	8.48%	8.21%
Operating Expenses	41.96%	42.02%	41.82%	41.89%	42.78%
SG&A Expenses	14.03%	14.01%	14.11%	13.88%	13.53%
Adjusted EBITDA	37.41%	37.08%	37.34%	37.16%	37.19%
Depreciation & Amortization	10.15%	10.34%	10.23%	10.17%	10.72%

Source: Cedar Fair Entertainment Co. and Hilliard Lyons estimates Note: December fiscal year

Additional information is available upon request.

Analyst Certification

I, Jeffrey S. Thomison, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

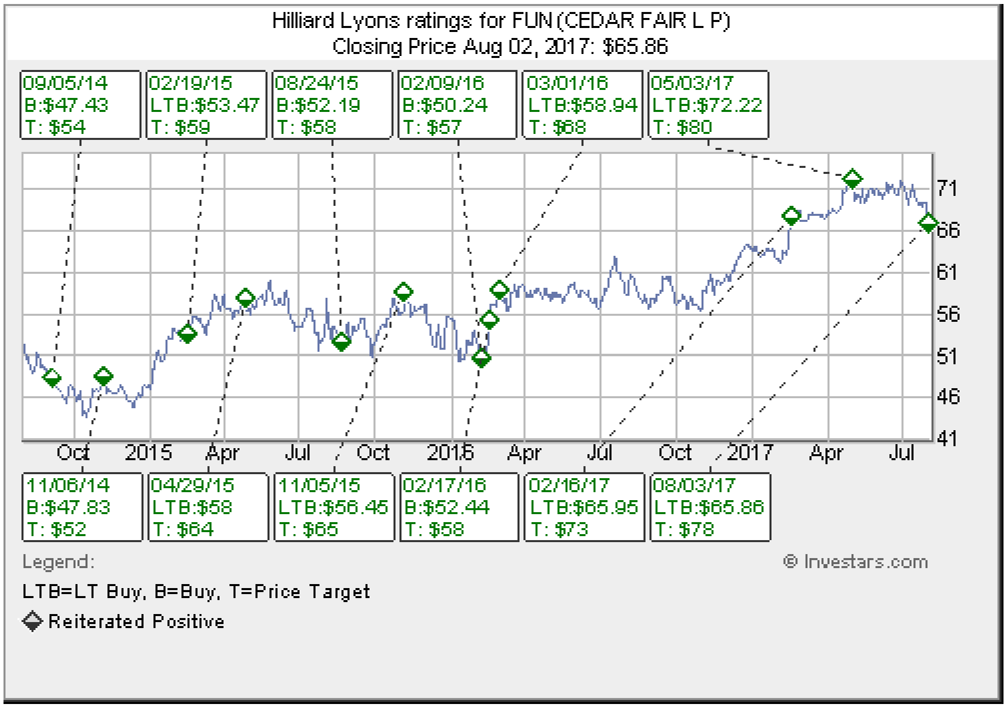
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings
1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017



Note: Price targets accompanying Buy ratings reflect a one year time period while price targets accompanying Long-term Buy ratings reflect a two to three year time period.

Other Disclosures

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