HILLIARD LYONS

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

Key Metrics

FUN - NYSE (as of 9/11/17)		$64.67
Two Year Price Target		$77.00
52-Week Range		$56.23 - $72.56
Shares Outstanding (mil) (basic)		56.1
Market Cap. ($mil)		$3,626
3-Mo. Average Daily Volume		142,660
Institutional Ownership		57%
Total Debt ($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	5.3%
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	$3.51	$3.25		
4Q	($0.12)	$0.07	$0.12		
Year	$3.14	$3.10	$2.90	$3.65	$3.50
P/E	20.6x		22.3x		18.5x

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	$681	$651		
4Q	$192	$213	$208		
Year	$1,289	$1,330	$1,300	$1,390	$1,375

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.*

Cedar Fair Entertainment Co.

FUN — NYSE — Long-term Buy-3

Update

Investment Highlights

- **As is customary, management recently provided an update on business through the Labor Day holiday.** Year-to-date revenues through 9/4/17 were down less than 1.0% compared to the year ago period. For the 1H period of 2017, revenues were down 1.2%. Same park attendance, in-park per capita spending, and out-of-park spending for the YTD period were comparable to year ago levels. However, adverse weather affected business at several parks this summer, including some key operating days. This is likely to impact 3Q results.
- **Adjusted EBITDA is now expected to be $480-$490 million for the year.** We have lowered our estimate by $11 million to $484 million. Management's original goal was for this metric to reach $500 million in 2018. Although recent expectations were for this goal to be reached a year early, it now appears as though 2018 is the proper time frame after all.
- **We remain optimistic on the business.** An increase in park operating days could help 4Q results, as more parks will be participating in holiday-themed events. This could help produce slight adjusted EBITDA growth in 2017, in our opinion. We expect record results again next year, yet we have lowered our estimates a bit to be conservative. We will continue to keep an eye on external factors such as economic conditions and weather.
- **We reiterate our Long-term Buy rating.** With minor adjustments to our forecast, we are lowering our two-year price target by $1 to $77 per unit. We believe the company's future is solid, with annualized adjusted EBITDA growth of 4.0% over a multi-year period. Our price target reflects essentially no change in valuation assumption relative to our prior view, only a slight change in our profit forecast. Annualized total return potential, including cash distributions, is just over 14%. Our Suitability rating remains 3.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5.

Financial condition. The company is leveraged, consistent with its operating history and somewhat of an industry norm. Total debt 2Q end 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 future 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 3.6% 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 5.3% based on the recent closing unit price. Going forward, we expect modest increases in the distribution 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. Based on management's business update and recent weather, we are making necessary adjustments to our 2017 financial estimates, including revenues and adjusted EBITDA. Our 2017 adjusted EBITDA estimate is $484 million, down $11 million from our previous figure and representing growth of 0.6% from 2016. We project a rebound in 2018, with above-average growth of 6.4% to $515 million, or $5 million below our previous estimate. This would represent compounded annual growth of 3.9% over a five-year period. We consider 4.0% adjusted EBITDA growth to be somewhat of a benchmark, given variables such as attendance, premium services, season pass and dining plans, and pricing.

Unit price and valuation. As noted in Exhibit 1, Enterprise Value (using year-end net debt figures) divided by our estimate of 2017 adjusted EBITDA is 10.6x, while the valuation on our projections of 2018 adjusted EBITDA and net debt is 9.8x. This translates to a 10.2x multiple on projected twelve-month forward adjusted EBITDA. This compares to a recent historical range that we estimate at 8-12x.

Exhibit 1
Valuation Analysis (figures in millions except ratios and per share data)

		2018E	2017E	2016	2015	2014	2013
Share Price (9/11/17)	$64.67						
Recent Share Count, diluted	56.6						
Market Capitalization	$3,660.2						
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)		$5,055.2	$5,125.2	$5,074.2	$5,079.2	$5,087.2	$5,062.8
Adj. EBITDA (exclud. nonrecurring items)		$515.0	$484.0	$481.2	$459.2	$431.3	$425.4
% chg.		6.4%	0.6%	4.8%	6.5%	1.4%	8.8%
EV / Adj. EBITDA		**9.8x**	**10.6x**	**10.5x**			

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

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 this valuation could continue or slightly expand in future years if adjusted EBITDA growth meets or beats our projected annualized rate of roughly 4% and cash distributions continue to move higher.

Opinion. Despite the sluggish end to the 2017 summer period, we believe company fundamentals remain strong. Existing assets are generally performing as expected, in our view, and new assets (such as a new sports complex for hosting amateur/youth sporting events) and new endeavors (such as initial Christmas events planned at several parks) add potential for incremental growth.

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 lowered by $1 to $77 per unit. In determining our target, we assume a valuation level—10.4x our projection of forward adjusted EBITDA in two years—similar to our previous assumption and the current forward multiple. We feel this is reasonable based on our confidence in new incremental revenue streams, a favorable fundamental outlook, and the historical valuation range. Based on the current unit price and our target, annualized total return potential is just over 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 5.3% 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 2
GAAP-based Income Statement (figures in millions except percentages and per share data)

	2018E	2017E	2016	2015	2014
Admissions	$765.0	$720.0	$716.2	$687.4	$661.5
Food, Merchandise and Games	430.0	410.0	407.7	398.0	365.5
Accommodations and Other	180.0	170.0	164.9	150.3	132.6
Net Revenues	1,375.0	1,300.0	1,288.7	1,235.8	1,159.6
% change	5.8%	0.9%	4.3%	6.6%	2.2%
Cost of Food, Merch, Games	115.0	110.0	106.6	104.8	95.2
Operating Expenses	581.0	549.0	538.9	517.6	496.1
SG&A Expenses	194.0	183.0	181.8	171.5	156.9
Depreciation & Amort.	141.0	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	339.5	318.0	316.9	295.3	278.3
Interest Expense, net	84.5	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	23.5	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	255.2	209.6	249.1	134.4	114.0
Provision for Taxes	56.1	45.0	71.4	22.2	9.9
Net Income	$199.1	$164.6	$177.7	$112.2	$104.1
Net Inc. Per Diluted Unit	$3.50	$2.90	$3.14	$1.99	$1.86
Avg. Diluted Units Outstanding	56.8	56.7	56.6	56.4	56.0
Adjusted EBITDA	**$515.0**	**$484.0**	**$481.2**	**$459.2**	**$431.3**
% change	6.4%	0.6%	4.8%	6.5%	1.4%
As a % of Net Revenues:					
Cost of Food, Merch, Games	8.36%	8.46%	8.27%	8.48%	8.21%
Operating Expenses	42.25%	42.23%	41.82%	41.89%	42.78%
SG&A Expenses	14.11%	14.08%	14.11%	13.88%	13.53%
Adjusted EBITDA	37.45%	37.23%	37.34%	37.16%	37.19%
Depreciation & Amortization	10.25%	10.62%	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

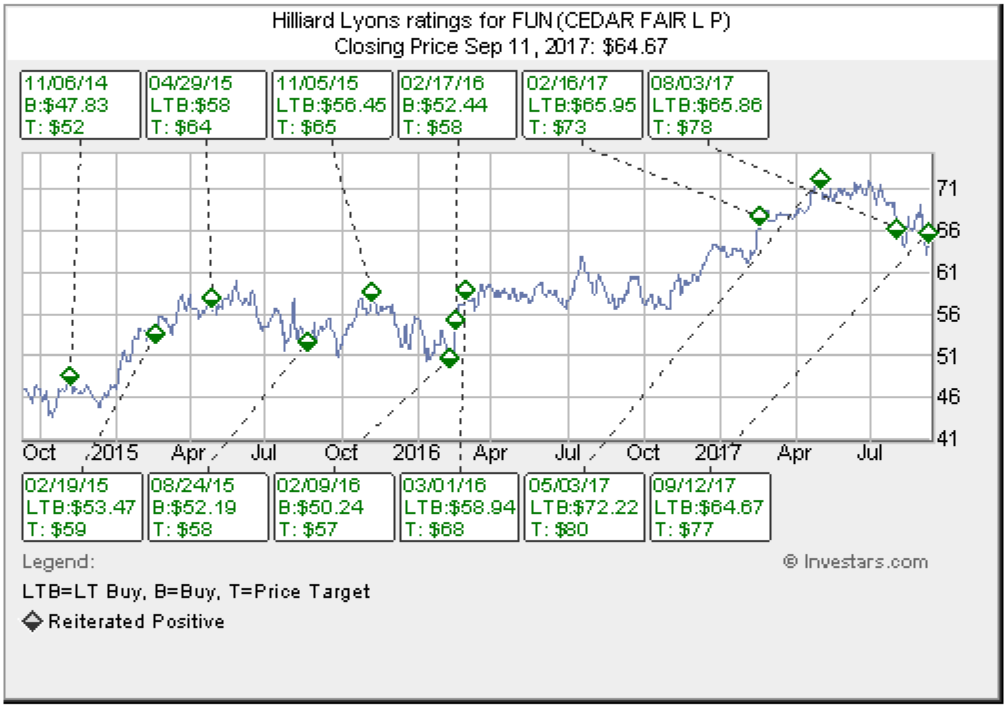
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe 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	40	32%	10%	90%
Hold/Neutral	77	62%	8%	92%
Sell	8	6%	0%	100%

As of 6 September 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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