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COMPANY UPDATE / ESTIMATE CHANGE / RATING CHANGE

# Six Flags Entertainment Corp.

SIX — NYSE — Neutral-3

## Lowering Rating to Neutral Based on Valuation; Yield Remains Attractive

| Key Metrics | | | |
|---|---|---|---|
| SIX - NYSE | (as of 4/26/17) | | $64.88 |
| Price Target | | | N/A |
| 52-Week Range | | | $47.61 - $65.19 |
| Shares Outstanding (mil) (basic) | | | 91.2 |
| Market Cap. ($mil) | | | $5,914 |
| 3-Mo. Average Daily Volume | | | 768,711 |
| Institutional Ownership | | | 88% |
| Total Debt ($mil) (3/17) | | | $1,714 |
| Total Stockholders' Equity ($mil) (3/17) | | | ($184) |
| Book Value/Share (3/17) | | | NM |
| Price/Book Value | | | NM |
| Annual Dividend & Yield | | $2.56 | 3.9% |
| Adjusted EBITDA Margin (TTM ended 3/17) | | | 38% |

**EPS FY 12/31** (GAAP-based figures)

| | 2015 | 2016 | Prior 2017E | Curr. 2017E |
|---|---|---|---|---|
| 1Q | ($0.75) | ($0.51) | | ($0.63) |
| 2Q | $0.67 | $0.64 | | |
| 3Q | $1.64 | $1.09 | | |
| 4Q | $0.02 | $0.02 | | |
| Year | $1.58 | $1.25 | $1.75 | $1.90 |
| P/E | 41.1x | 51.9x | | 34.1x |

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)**

| | 2015 | 2016 | Prior 2017E | Curr. 2017E |
|---|---|---|---|---|
| 1Q | $85 | $115 | | $100 |
| 2Q | $386 | $407 | | |
| 3Q | $575 | $558 | | |
| 4Q | $217 | $239 | | |
| Year | $1,264 | $1,319 | $1,420 | $1,415 |

**Company Description:** *Six Flags Entertainment Corporation is the world's largest regional amusement park company with 19 amusement parks and water parks across the U.S., Mexico, and Canada. International operations, and related growth initiatives, exist through licensing relationships. The company currently has projects in various stages of development in Dubai, China, and Vietnam. Six Flags is headquartered in Grand Prairie, TX.*

### Investment Highlights

- **We are lowering our rating on SIX to Neutral from Long-term Buy based on an increase in valuation following recent share price appreciation.** SIX shares set an all-time high in trading yesterday. The Enterprise Value/adjusted EBITDA ratio rose above a level we prefer for purchases, and we find the shares fairly valued at this time. We still consider SIX a well-run, high-quality operator in the theme park industry, and believe company fundamentals are positive. We like the portfolio of properties, brand equity, and growth opportunities. Our Suitability rating remains 3, which is largely based on a leveraged balance sheet.
- **SIX shares continue to have a compelling income component.** Dividends are adequately covered by cash flow, in our view, and the quarterly rate has been raised for seven consecutive years. The current yield of 3.9% is above average compared to the Consumer Discretionary sector and the overall market.
- **We were relatively pleased with 1Q results.** Key figures were down from a year ago due mainly to a calendar shift whereby Easter and Spring Break business is expected to favorably impact 2Q this year versus realized benefits in 1Q of 2016. Management noted that year-to-date attendance (capturing this business in both years) is up about 5%.
- **We have fine-tuned our financial estimates, with no material changes.** Management reiterated its goal of $750 million in modified EBITDA (includes contribution from properties less than wholly owned by SIX) by 2020, which would represent a compounded annual growth rate of about 8% using 2015 as a base year. Moreover, management is comfortable with a $600 million figure for this year; our estimate is $604 million, which represents an 11% increase from 2016.

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

***1Q results.*** Results for the quarter ended March 31, 2017 were relatively encouraging to us. The main factor impacting the quarter was this year's Easter holiday and much of the Spring Break period, both of which fell in the current 2Q, unlike last year when those events benefited the 1Q period. Due to the tough comparison, key metrics for the recent 1Q were down from year ago levels. For example, total revenues of $99.5 million were down 14% from the year ago figure. Adjusted EBITDA (earnings before interest, taxes, depreciation & amortization) was a negative $35.1 million, wider than the negative $23.1 million figure a year ago. We remind investors that the company typically produces negative EBITDA in its 1Q period due to seasonality of the theme park business (many parks being closed). While overall attendance in the quarter was down considerably, management noted attendance was up 5% when adjusting for the calendar factor. Similarly, year-to-date attendance through late April was up about 5% (with both periods including Easter/Spring Break).

***Financial condition.*** SIX operates under a leveraged capital structure. At March 31, 2017, the company had $1.654 billion in current and long-term debt, an additional $60 million in bank borrowings, $31 million in cash, and a $184 million deficit in shareholders' equity. Shareholders' equity was positive throughout 2015 and moved to a deficit in 2016 due in part to rising debt balances and the effects of share repurchases. SIX's financial statements can vary on a quarter-to-quarter basis due to the seasonality of the business. Cash has historically seen a boost in the September quarter, following the peak operating season.

***Dividends.*** We consider SIX's dividend a positive factor. The stock's current yield is 3.9%. Dividends were initiated in 2010 shortly after a reorganization and issue of common shares. In late 2010, the company announced a quarterly dividend rate of $0.03 per share. This rate was boosted to $0.30 per share in early 2012 and has risen every year since. The most recent increase, a 10.3% hike to a quarterly rate of $0.64 per share, was announced in November 2016.

We believe the quarterly dividend rate is likely to be increased each year during the 4Q period, keeping in step with recent history. We believe increases in the mid-to-upper single digit percentage range represents the most likely scenario in future years, acknowledging a variety of potential uses for the company's cash flow following debt service, including capital spending and share repurchases. Importantly, we believe dividends are well covered by cash flows.

***Outlook.*** Management reiterated its modified EBITDA target of $600 million by 2017 and $750 million by 2020. This latter figure represents compounded annual growth of 8% using 2015 as the base year. Modified EBITDA is similar to adjusted EBITDA but includes third party interest in EBITDA of certain operations. We believe growth can come from a combination of attendance gains, price increases, international licensing, and potential acquisitions.

We have updated our fiscal 2017 financial outlook with minor changes. We estimate net sales at $1.415 billion, down a modest $5 million from our previous estimate. We assume improvements in attendance and guest spending per capita, and higher licensing revenues. Our adjusted EBITDA estimate remains $565 million, representing growth of 11.5% from 2016. We expect normalized weather (compared to unusually challenging weather in 2016) to help attendance and margins. Our diluted EPS estimate is $1.90, up $0.15 from our previous figure after updates to various line items. However, we feel EBITDA is by far a more closely watched financial metric than EPS.

***Valuation.*** Enterprise Value (using year-end net debt figures) divided by our 2017 adjusted EBITDA estimate is 13.2x. See Exhibit 1 on the following page. We estimate a recent historical valuation range on forward adjusted EBITDA to be 9x-15x. We feel the current valuation, while not uncomfortably high, reflects expectations of margin improvement, substantial cash flows, strong brand equity, expanding international opportunities, and a generous dividend with annual growth potential. As a matter of information, we note our original purchase recommendation of SIX upon initiation of coverage in August 2016 was based on an Enterprise Value/adjusted EBITDA multiple of 11.3x.

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

| | | 2018E | 2017E | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Share Price (close on 4/26/17) | $64.88 | | | | | |
| Diluted Share Count , most recent | 91.2 | | | | | |
| Market Capitalization | $5,913.9 | | | | | |
| Total Debt, year end, net of cash | | $1,430.0 | $1,560.0 | $1,516.3 | $1,405.8 | $1,321.6 |
| Enterprise Value (EV) | | $7,343.9 | $7,473.9 | $7,430.1 | $7,319.6 | $7,235.5 |
| Adj. EBITDA (exclud. nonrecurring items) | | $610.0 | $565.0 | $506.6 | $481.4 | $439.3 |
| % chg. | | 8.0% | 11.5% | 5.2% | 9.6% | 8.7% |
| **EV / Adj. EBITDA** | | **12.0x** | **13.2x** | **14.7x** | | |

Note: Estimated figures assume declining net debt and stable share base, although a portion of future free cash flow could be applied toward share repurchases.

Source: Six Flags Entertainment Corporation and Hilliard Lyons estimates Note: December fiscal year

***Opinion.*** We like Six Flags' operating history, the property portfolio, the management team, and a financial outlook we expect to include rising annual cash flows. We believe modest capital appreciation potential exists, with an attractive dividend adding to total return potential. However, we find the stock fairly valued at the current level. As such, we are moving our rating to Neutral from Long-term Buy.

***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 company's financial history, the discretionary nature of the business, the early stages of international business pursuits, and our perception of the overall risk profile.

***Risks.*** Risk factors that could impact Six Flags' results and therefore our profit projections include general economic conditions, overall levels of leisure spending, pricing power, the competitive landscape, weather conditions, pace of new project construction, potential asset sales, prevailing interest rates, geopolitical risks that could affect international expansion plans, guest safety, and other factors. Also, 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. Finally, cash flow utilization (capital spending, debt reduction, share buybacks, and cash distributions) may be subject to investor scrutiny.

**Exhibit 2**
**Consolidated Statements of Income** (figures in millions except percentages and per share data)

| | 2017E | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Admissions | $765.0 | $715.4 | $687.8 | $641.5 | $602.2 |
| Food, Merchandise and Other | 557.0 | 521.2 | 500.2 | 460.1 | 448.5 |
| Sponsorship, Licensing, and Other | 76.0 | 66.3 | 59.1 | 57.3 | 42.2 |
| Accommodations | 17.0 | 16.5 | 16.8 | 16.9 | 17.0 |
| Total Revenues | 1,415.0 | 1,319.4 | 1,263.9 | 1,175.8 | 1,109.9 |
| % change | 7.2% | 4.4% | 7.5% | 5.9% | 3.7% |
| Cost of Products Sold | 114.0 | 109.6 | 100.7 | 90.5 | 86.7 |
| Operating Expenses | 519.0 | 489.4 | 465.2 | 437.4 | 417.5 |
| SG&A Expenses | 184.0 | 175.5 | 178.6 | 170.9 | 162.2 |
| Depreciation & Amortization | 112.0 | 106.9 | 107.4 | 108.1 | 128.1 |
| Stock-based Compensation | 80.0 | 116.3 | 56.2 | 140.0 | 27.0 |
| Loss on Disposal of Assets | 3.0 | 2.0 | 9.9 | 5.9 | 8.6 |
| Gain on Sale of Investee | 0.0 | 0.0 | 0.0 | (10.0) | 0.0 |
| Operating Income | 403.0 | 319.8 | 345.9 | 233.0 | 279.9 |
| Interest Expense, net | 81.0 | 81.9 | 75.9 | 72.6 | 74.1 |
| Loss on Early Exting. of Debt | 3.0 | 2.9 | 6.6 | 0.0 | 0.8 |
| Other Expenses (Income) | 2.5 | 1.7 | 0.2 | 0.4 | 1.1 |
| Income Before Taxes | 316.5 | 233.3 | 263.2 | 160.0 | 203.9 |
| Provision for Taxes | 104.4 | 76.5 | 70.4 | 46.5 | 47.6 |
| Net Income, Contin. Oper. | $212.1 | $156.7 | $192.8 | $113.5 | $156.3 |
| Net Income Attrib. to Noncontrol. Int. | (39.0) | (38.4) | (38.2) | (38.0) | (38.3) |
| N.I. Attrib. to Six Flags, Contin. Oper. | $173.1 | $118.3 | $154.7 | $75.5 | $118.0 |
| N.I. Per Diluted Share, Contin. Oper. | $1.90 | $1.25 | $1.58 | $0.76 | $1.17 |
| Avg. Diluted Shares Outstanding | 91.0 | 94.4 | 98.0 | 98.1 | 100.4 |
| **As a % of Total Revenues:** | | | | | |
| Cost of Products Sold | 8.06% | 8.31% | 7.97% | 7.70% | 7.81% |
| Operating Expenses | 36.68% | 37.09% | 36.81% | 37.20% | 37.61% |
| SG&A Expenses | 13.00% | 13.30% | 14.13% | 14.54% | 14.61% |
| Operating Income | 28.48% | 24.24% | 27.37% | 19.81% | 25.22% |
| Modified EBITDA | 42.69% | 41.31% | 41.11% | 40.59% | 40.02% |
| Adjusted EBITDA | 39.93% | 38.40% | 38.09% | 37.36% | 36.41% |
| Depreciation & Amortization | 7.92% | 8.10% | 8.50% | 9.19% | 11.54% |
| **Modified EBITDA** | **$604.0** | **$545.0** | **$519.6** | **$477.3** | **$444.2** |
| % change | 10.8% | 4.9% | 8.9% | 7.5% | 6.7% |
| **Adjusted EBITDA** | **$565.0** | **$506.6** | **$481.4** | **$439.3** | **$404.1** |
| % change | 11.5% | 5.2% | 9.6% | 8.7% | 5.6% |
| Less: | | | | | |
| Cash Interest Paid | (75.0) | (68.8) | (70.5) | (66.7) | (51.3) |
| Capital Expenditures | (131.0) | (128.9) | (114.2) | (107.8) | (101.9) |
| Cash Taxes Paid | (26.0) | (17.3) | (15.0) | (16.8) | (13.8) |
| **Free Cash Flow** | **$333.0** | **$291.6** | **$281.7** | **$248.0** | **$237.1** |
| Dividends Paid | $236.0 | $220.0 | $201.0 | $184.3 | $176.2 |
| % change | 7.3% | 9.5% | 9.0% | 4.6% | 18.8% |

Source: Six Flags Entertainment Corporation 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

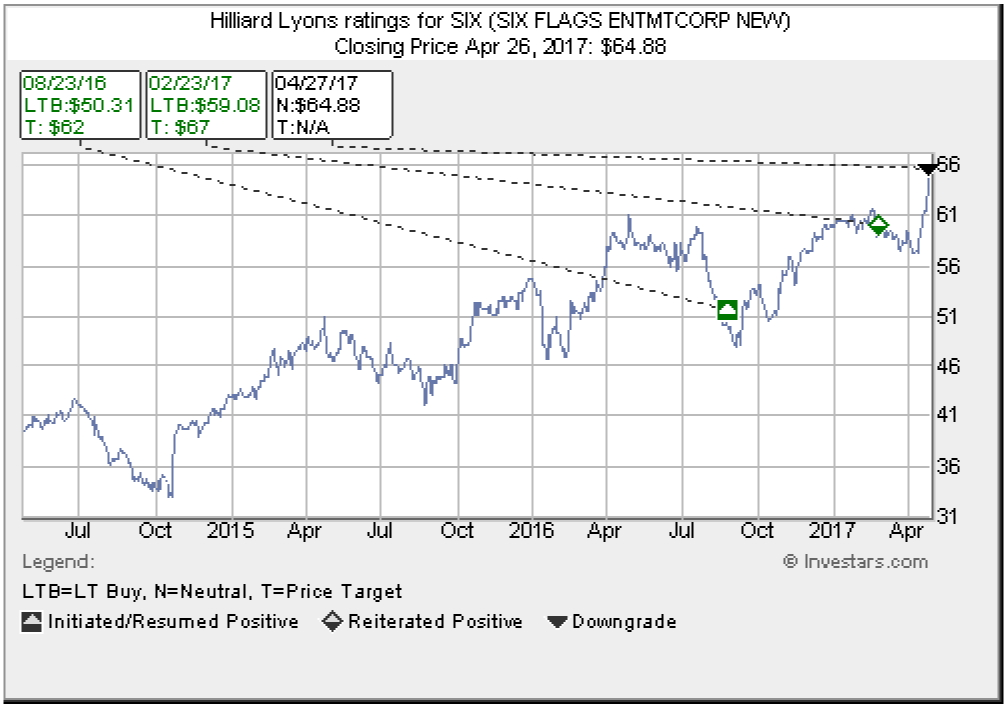
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

**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 | 30% | 14% | 86% |
| **Hold/Neutral** | 71 | 58% | 6% | 94% |
| **Sell** | 15 | 12% | 7% | 93% |

*As of 5 April 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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