Entertainment & Leisure
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COMPANY UPDATE / ESTIMATE CHANGE / RATING CHANGE

Key Metrics

SIX - NYSE (as of 8/29/17)		$52.38
One-year Price Target		$59.00
52-Week Range		$47.61 - $65.19
Shares Outstanding (mil) (basic)		87.1
Market Cap. ($mil)		$4,564
3-Mo. Average Daily Volume		1,290,000
Institutional Ownership		93%
Total Debt ($mil) (6/17)		$2,048
Total Stockholders' Equity ($mil) (6/17)		($555)
Book Value/Share (6/17)		NM
Price/Book Value		NM
Annual Dividend & Yield	$2.56	4.9%
Adjusted EBITDA Margin (TTM ended 6/17)		38%

EPS FY 12/31 (GAAP-based figures)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	($0.51)		($0.63) A		
2Q	$0.64		$0.59 A		
3Q	$1.09	$1.80	$1.70		
4Q	$0.02	$0.07	$0.08		
Year	$1.25	$1.80	$1.70	$2.25	$2.30
P/E	41.9x		30.8x		22.8x

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	$115		$100 A		
2Q	$407		$422 A		
3Q	$558	$613	$573		
4Q	$239	$255	$250		
Year	$1,319	$1,390	$1,345	$1,450	$1,445

Company Description: *Six Flags Entertainment Corporation is the world's largest regional amusement park company with 20 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.*

Six Flags Entertainment Corp.

SIX — NYSE — Buy-3

Raising Rating to Buy

Investment Highlights

- **We are raising our rating on SIX to Buy from Neutral**. SIX shares are down about 13% for the calendar year-to-date period, with more pronounced declines during the summer months. We feel adverse weather has been the main reason for the share price weakness, despite having little to no correlation to future years. As a result of share price weakness, valuation has become more attractive, in our view, even with refinements to our financial forecast.
- **It has been a challenging summer.** SIX shares have steadily declined over the summer, particularly following 2Q results and adjusted expectations for summer business. We lowered our 2017 financial estimates following 2Q results that were impacted by adverse weather conditions. With this report, we are again reducing our 2017 estimates, this time based on the impact Hurricane Harvey could have on operating results at the company's Texas properties.
- **With a 4.9% current yield, SIX shares have a compelling income component.** Dividends are well covered by cash flow, in our view, and the rate has been raised for seven consecutive years.
- **We recommend purchase of SIX for good total return potential.** We 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 one-year price target is $59 per share.** This assumes a valuation slightly above the current level but at the mid-point of a recent historical range. Our target price and expected dividends represent potential total return of over 17% based on the current price. Our Suitability rating remains 3, which is largely based on a leveraged balance sheet.

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

Business update. We continue to like the company's business model, with strong brand equity supporting the portfolio of domestic parks and a licensed-based international expansion strategy. Investor attention on mixed 2Q results (see below) and, more recently, on Hurricane Harvey has moved the stock well off its 52-week high. We consider resulting valuations, based on our updated financial forecast, attractive. While Hurricane Harvey did not damage Six Flags properties in the San Antonio and Dallas/Ft. Worth areas, state tourism and park visits from the Houston market have clearly been impacted. We have adjusted our financial estimates in an attempt to reflect this situation.

A pre-existing goal of management was for modified EBITDA (earnings before interest, taxes, depreciation & amortization, and including contribution from properties less than wholly owned by SIX) of $600 million by 2017, but we do not believe this is expected by the investment community any longer. We lowered our estimate for this metric to $585 million in our research report dated 7/27/17, following 2Q results. With this report, we add the recent weather factor to our outlook, which leads to our new estimate for 2017 modified EBITDA of $580 million. The company's stated goal of $750 million in modified EBITDA by 2020 remains for now; this represents compounded annual growth of 7.6% using 2015 as a base year

We do not feel a need to make weather-related changes to our 2018 outlook, as we believe this summer's harsh weather is unlikely to recur next year. Changes to our estimates of key metrics in 2018 reflect fine-tuning only. Moreover, we believe our 2018 outlook may be conservative due to the potential for pent-up demand following some cancelled or altered park visitation/travel plans due to numerous weather anomalies that have occurred this summer.

2Q results. Results for the quarter ended June 30, 2017 were generally below expectations. Revenues of $422 million were below street consensus of $436 million. Similarly, adjusted EBITDA of $166 million fell short of the consensus estimate of $175 million and earnings per share of $0.59 was below the $0.64 expectation. We feel the main reason for the shortfalls was the negative impact of adverse weather conditions (including rain and extreme heat) in various markets. This likely impacted attendance and per capita spending, in our view.

Total attendance in 2Q was up 5% versus a year ago, but this reflected a calendar shift whereby Easter and Spring Break business favorably impacted 2Q this year versus related benefits in 1Q of 2016. For the entire 1H period, this year's attendance was up 2% compared to last year. Total guest per capita spending was down 2% in the quarter to $41.67. This is likely impacted by rising season pass sales, which typically results in lower per capita spending due to multiple visits during the season by the pass holder. However, considering profitability and margins, greater season pass sales is a more desirable business attribute than an increase in per capita spending.

Financial condition. SIX operates under a leveraged capital structure. At June 30, 2017, the company had $2.048 billion in total debt, $68 million in cash, and a $555 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. The net leverage ratio (net debt divided by trailing adjusted EBITDA) was 3.9x; we are generally comfortable with levels below 4.5x. 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 4.9%. 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 $0.015 per share (adjusted for subsequent stock splits). 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 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 flow.

Outlook. The company's "Project 600" business plan was implemented several years ago and included a goal of $600 million in modified EBITDA by 2017. As mentioned earlier, we do not believe this is likely to be realized nor do we believe it is expected within the investment community. Based on 1H 2017 results and in accordance with accounting standards, management views this goal as "no longer probable." The impact of Hurricane Harvey in Texas adds to the improbability of this goal being met.

However, the company recently reiterated its modified EBITDA target of $750 million by 2020, and we believe this remains achievable. This goal represents compounded annual growth of 7.6% 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, season pass and dining plan sales, international licensing, and potential acquisitions.

We have updated our fiscal 2017 financial outlook. We estimate net sales at $1.345 billion, down $45 million from our previous estimate and representing a 1.9% increase from 2016. Our adjusted EBITDA estimate is $540 million, down $5 million from our previous figure and representing growth of 6.6% from 2016. We assume EBITDA margin gains (on an adjusted and modified basis) for the year. Our diluted EPS estimate is $1.70, down $0.10 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 12.1x. At the time of our last report, dated 7/27/17, this figure was 13.1x. The multiple on projected twelve-month forward adjusted EBITDA is roughly 11.5x. We estimate a valuation range on forward adjusted EBITDA to be 10x-14x over the past five years. As a matter of information, we note that at the time of our original purchase recommendation of SIX (initiation of coverage in August 2016) the multiple on expected forward adjusted EBITDA was 11.3x, similar to the current figure.

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

		2018E	2017E	2016	2015	2014
Share Price (close on 8/29/17)	$52.38					
Diluted Share Count , most recent	88.8					
Market Capitalization	$4,653.0					
Total Debt, year end, net of cash		$1,800.0	$1,870.0	$1,516.3	$1,405.8	$1,321.6
Enterprise Value (EV)		$6,453.0	$6,523.0	$6,169.3	$6,058.8	$5,974.7
Adj. EBITDA (exclud. nonrecurring items)		$590.0	$540.0	$506.6	$481.4	$439.3
% chg.		9.3%	6.6%	5.2%	9.6%	8.7%
EV / Adj. EBITDA		**10.9x**	**12.1x**	**12.2x**		

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 recommend purchase of SIX for investors seeking attractive total return potential. Moreover, equity investors with a focus on income may also find the shares compelling given the current 4.9% yield. As stated, we consider dividends well covered by cash flows, which we believe are on an upward trend due to the growth strategy in place.

We like Six Flags' operating history, property portfolio, management team, and financial outlook. We feel positive attributes include potential for margin improvement, substantial cash flows, strong brand equity, expanding international opportunities, and a generous dividend with annual growth potential. A strong capital expenditure program can lead to higher attendance figures and improved in-park spending for years to come, in our view. Meanwhile, high margin licensing revenues could increase each year due to planned projects by third party investors/operators in numerous international markets.

Our rating on SIX is Buy and our one-year target price is $59 per share. This represents an Enterprise Value/adjusted EBITDA valuation of approximately 12x based on our estimate of forward EBITDA one year from now. This valuation compares to the current forward multiple of approximately 11.5x and an estimated range of 10x-14x over the past five years. With projected dividends, total return potential based on the current price is just over 17%.

Suitability. Our Suitability rating of 3 (see definitions in the Important Disclosures section of this report) 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 (including potential Hurricane Harvey impact), 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)

	2018E	2017E	2016	2015	2014
Admissions	$774.5	$724.0	$715.4	$687.8	$641.5
Food, Merchandise and Other	568.0	529.0	521.2	500.2	460.1
Sponsorship, Licensing, and Other	86.0	76.0	66.3	59.1	57.3
Accommodations	16.5	16.0	16.5	16.8	16.9
Total Revenues	1,445.0	1,345.0	1,319.4	1,263.9	1,175.8
% change	7.4%	1.9%	4.4%	7.5%	5.9%
Cost of Products Sold	119.0	110.0	109.6	100.7	90.5
Operating Expenses	537.0	502.0	489.4	465.2	437.4
SG&A Expenses	192.0	180.0	175.5	178.6	170.9
Depreciation & Amortization	111.0	109.0	106.9	107.4	108.1
Stock-based Compensation	35.0	40.0	116.3	56.2	140.0
Loss on Disposal of Assets	0.0	2.3	2.0	9.9	5.9
Gain on Sale of Investee	0.0	0.0	0.0	0.0	(10.0)
Operating Income	451.0	401.7	319.8	345.9	233.0
Interest Expense, net	95.0	92.0	81.9	75.9	72.6
Loss on Early Exting. of Debt	0.0	37.1	2.9	6.6	0.0
Other Expenses (Income)	2.0	2.0	1.7	0.2	0.4
Income Before Taxes	354.0	270.6	233.3	263.2	160.0
Provision for Taxes	116.8	81.2	76.5	70.4	46.5
Net Income, Contin. Oper.	$237.2	$189.4	$156.7	$192.8	$113.5
Net Income Attrib. to Noncontrol. Int.	(39.0)	(38.0)	(38.4)	(38.2)	(38.0)
N.I. Attrib. to Six Flags, Contin. Oper.	$198.2	$151.4	$118.3	$154.7	$75.5
N.I. Per Diluted Share, Contin. Oper.	$2.30	$1.70	$1.25	$1.58	$0.76
Avg. Diluted Shares Outstanding	86.0	89.0	94.4	98.0	98.1
As a % of Total Revenues:					
Cost of Products Sold	8.24%	8.18%	8.31%	7.97%	7.70%
Operating Expenses	37.16%	37.32%	37.09%	36.81%	37.20%
SG&A Expenses	13.29%	13.38%	13.30%	14.13%	14.54%
Operating Income	31.21%	29.87%	24.24%	27.37%	19.81%
Modified EBITDA	43.60%	43.12%	41.31%	41.11%	40.59%
Adjusted EBITDA	40.83%	40.15%	38.40%	38.09%	37.36%
Depreciation & Amortization	7.68%	8.10%	8.10%	8.50%	9.19%
Modified EBITDA	**$630.0**	**$580.0**	**$545.0**	**$519.6**	**$477.3**
% change	8.6%	6.4%	4.9%	8.9%	7.5%
Adjusted EBITDA	**$590.0**	**$540.0**	**$506.6**	**$481.4**	**$439.3**
% change	9.3%	6.6%	5.2%	9.6%	8.7%
Less:					
Cash Interest Paid	(85.0)	(80.0)	(68.8)	(70.5)	(66.7)
Capital Expenditures	(136.0)	(131.0)	(128.9)	(114.2)	(107.8)
Cash Taxes Paid	(22.0)	(20.0)	(17.3)	(15.0)	(16.8)
Free Cash Flow	**$347.0**	**$309.0**	**$291.6**	**$281.7**	**$248.0**
Dividends Paid	$239.0	$230.0	$220.0	$201.0	$184.3
% change	3.9%	4.5%	9.5%	9.0%	4.6%

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

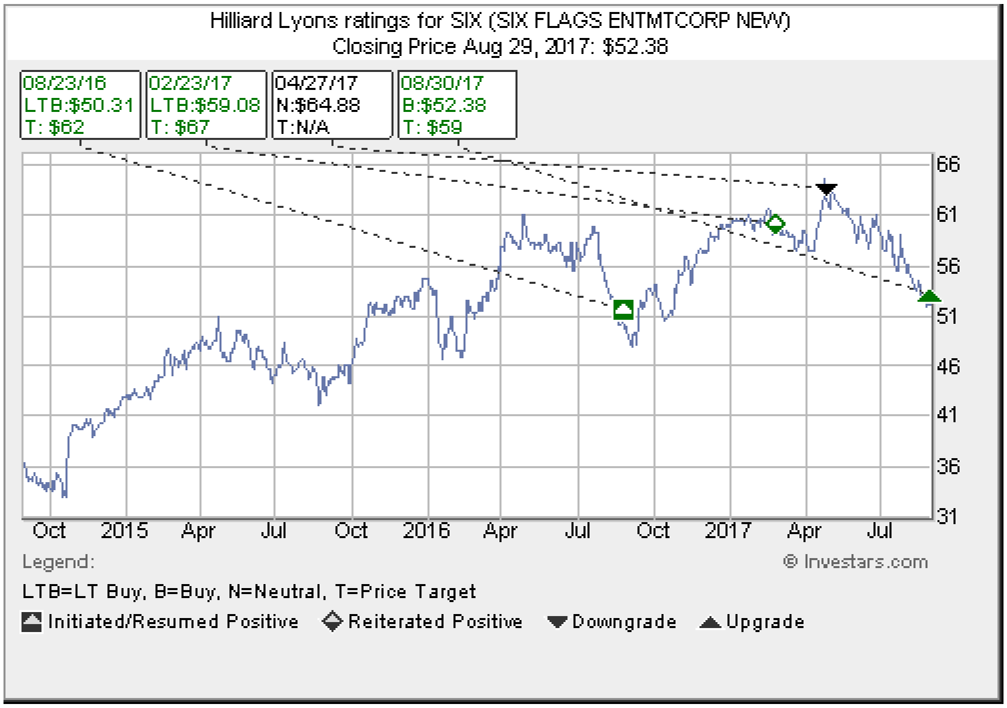
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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	38	30%	11%	89%
Hold/Neutral	77	61%	8%	92%
Sell	11	9%	0%	100%

As of 9 August 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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