HILLIARD LYONS

Entertainment & Leisure
Analyst: Jeffrey S. Thomison, CFA
502.588.9137 / JThomison@hilliard.com
Institutional Sales Desk: George Moorin
502.588.9141 / GMoorin@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
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COMPANY UPDATE / ESTIMATE CHANGE / PRICE TARGET CHANGE

Six Flags Entertainment Corp.

SIX — NYSE — Long-term Buy-3

Strong 4Q Results; Raising Price Target

Investment Highlights

- **We were impressed by 4Q results.** Total revenues for the quarter ended 12/31/16 rose 10.0% from the year ago period, about as we expected. However, margins rose more than we anticipated, as adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) increased 21.7%. Diluted EPS of $0.02 matched the year ago estimate, though we believe adjusted EBITDA is the main focus of investors.
- **A main reason for the surge in adjusted EBITDA was successful holiday events at the company's theme parks.** Attendance during the quarter rose by 1.1 million from last year's 4Q, as some parks successfully debuted holiday-related events (such as Christmas), while attendance generally rose at parks that participated last year.
- **We have updated our financial estimates.** Revisions include minor adjustments to our 2017 outlook, which has been lowered a bit based on more conservative assumptions. 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.
- **We recommend purchase of SIX for investors seeking attractive total return potential.** We consider SIX a well-run, high-quality operator in the theme park industry. We like the company's portfolio of properties, strong brand equity, and growth opportunities. Our two-year target is raised by $5 to $67 per share. This assumes roughly 8% annual growth in adjusted EBITDA and a valuation below the current level. An attractive dividend of over 4% adds to total return potential. Our Suitability rating of 3 remains, and is largely based on a leveraged balance sheet.

Key Metrics

SIX - NYSE (as of 2/22/17)		$59.08
Two-Year Price Target		$67.00
52-Week Range		$47.61 - $62.69
Shares Outstanding (mil) (basic)		91.8
Market Cap. ($mil)		$5,423
3-Mo. Average Daily Volume		1,304,879
Institutional Ownership		90%
Total Debt ($mil) (12/16)		$1,654
Total Stockholders' Equity ($mil) (12/16)		($186)
Book Value/Share (12/16)		NM
Price/Book Value		NM
Annual Dividend & Yield	$2.56	4.3%
Adjusted EBITDA Margin (TTM ended 12/16)		38%

EPS FY 12/31 (GAAP-based figures)

	2015	2016	Prior 2017E	Curr. 2017E
1Q	($0.75)	($0.51)		
2Q	$0.67	$0.64		
3Q	$1.64	$1.09		
4Q	$0.02	$0.02		
Year	$1.58	$1.25	$1.65	$1.75
P/E	37.4x	47.3x		33.8x

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 ($mm)

	2015	2016	Prior 2017E	Curr. 2017E
1Q	$85	$115		
2Q	$386	$407		
3Q	$575	$558		
4Q	$217	$239		
Year	$1,264	$1,319	$1,425	$1,420

Company Description: *Six Flags Entertainment Corporation is the world's largest regional amusement park company with 18 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 agreements with partners for future parks in Dubai, China, and Vietnam. Six Flags is headquartered in Grand Prairie, TX.*

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

4Q results. Results for the quarter ended December 31, 2016 were encouraging to us. While total revenues of $239.3 million were in line with our estimate, we were impressed by a 300 basis point improvement in adjusted EBITDA margin. The company's pursuit of holiday-related business in the 4Q period continued to bring success. This generally includes Halloween events in October and Christmas events in December, thus improving asset utilization and adding marketing opportunities for season pass sales. Total 4Q attendance rose 22% compared to the year ago level. Guest spending per capita (reflects admissions and in-park spending) in the quarter was $35.39, down 7% from a year ago. This decline reflects the growth in season pass sales (a worthy trade-off, in our view) and the impact of foreign currency exchange rates (primarily Mexican peso weakness).

We liked the annual performance, too, as 2016 represented the seventh consecutive year of record financial performance. Total revenues were $1.319 billion, up 4.4% from the prior year. Attendance rose about 5%, while pricing and international licensing activity boosted results. Adjusted EBITDA rose 5.2% to $506.6 million with margin improving roughly 30 basis points. Diluted EPS were $1.25 compared to $1.58 in 2015, with the decline largely due to an increase in stock-based compensation (a non-cash expense). We feel adjusted EBITDA, which excludes stock-based compensation, is more meaningful than EPS in analyzing the company's results, as well as being the most-watched financial metric among the investment community.

Financial condition. SIX operates under a leveraged capital structure. At December 31, 2016, the company had $1.654 billion in total debt, $137 million in cash, and a $186 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.

We expect free cash flow of about $300 million annually, growing each year. Interest coverage appears adequate to us. Adjusted EBITDA in 2016 represented 7.3x cash interest paid. Net debt-to-trailing adjusted EBITDA was 3.0x at year end, near the low end of a range we expect in most periods.

Dividends. We consider SIX's dividend a significant component of potential total return and a positive investment factor. The stock's current yield is 4.3%. 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 $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 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 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 continue to believe growth in the coming years can come from the following means:

- Admission price increases (single-day and annual passes)
- higher attendance due to park enhancements such as new attractions
- positive effect on attendance from implementation of virtual reality-based attractions
- growth of 4Q holiday-related events at the parks

- increase in sales of season passes and "memberships" (similar to season passes, but with no expiration and extra benefits)
- greater food/beverage sales through growth of all-season dining packages, more product options, and price increases
- further international licensing potential using partners to develop Six Flags parks in markets outside of North America
- high margin nature of licensing activity (currently at early stage)
- improved efficiencies at various parks
- cost containment measures at the operating and corporate levels
- favorable operating leverage, with SG&A and operating expenses growing more slowly than total revenues

We have updated our fiscal 2017 financial outlook with minor changes. We estimate net sales at $1.420 billion, representing growth of 7.6% compared to 2016. We assume improvements in attendance and guest spending per capita, and higher licensing revenues. Our adjusted EBITDA estimate is $565 million, a decrease of $5 million from our previous figure and 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 $1.75, up $0.10 from our previous figure of $1.65. 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 2016 adjusted EBITDA is 13.9x, inflated a bit by below-average EBITDA growth in 2016 (up 5.2% for the year). The valuation is 12.4x based on our projection of 2017 adjusted EBITDA and net debt, and 11.3x based on our 2018 projections. We estimate a recent historical valuation range on forward adjusted EBITDA to be 10x-15x. Although above some other valuations in the theme park industry and the broader Entertainment & Leisure space, we feel multiples in this range are justified by SIX's potential margin improvement, substantial cash flows, strong brand equity, expanding international opportunities, and a generous dividend with growth potential. We believe the current valuation is reasonable but have assumed a slightly lower figure in future years when determining our price target.

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

		2018E	2017E	2016	2015	2014
Share Price (close on 2/22/17)	$59.08					
Diluted Share Count , most recent	93.7					
Market Capitalization	$5,533.9					
Total Debt, year end, net of cash		$1,355.0	$1,445.0	$1,516.3	$1,405.8	$1,321.6
Enterprise Value (EV)		$6,888.9	$6,978.9	$7,050.2	$6,939.7	$6,855.5
Adj. EBITDA (exclud. nonrecurring items)		$612.0	$565.0	$506.6	$481.4	$439.3
% chg.		8.3%	11.5%	5.2%	9.6%	8.7%
EV / Adj. EBITDA		**11.3x**	**12.4x**	**13.9x**		

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 current property portfolio, management, and a financial outlook we expect to include rising cash flows and balance sheet improvement on an annual basis. We believe modest capital appreciation potential based on our financial projections and an attractive dividend can generate annual total return potential in the low double-digit percentages.

Our rating on SIX remains Long-term Buy. We find the stock valuation reasonable, particularly on our 2017 and 2018 estimates. Our two year price target is increased by $5 to $67 per share based on the passage of time and progression of financial results. Our target assumes roughly 8% compounded annual growth in adjusted EBITDA and an Enterprise Value/adjusted EBITDA multiple of 11.5x based on our 2019 estimate, below the current multiple of 12.4x on our 2017 estimate. We feel the 11.5x target multiple is reasonable based on our financial projections and historical ranges. 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.

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	$770.0	$715.4	$687.8	$641.5	$602.2
Food, Merchandise and Other	559.0	521.2	500.2	460.1	448.5
Sponsorship, Licensing, and Other	74.0	66.3	59.1	57.3	42.2
Accommodations	17.0	16.5	16.8	16.9	17.0
Total Revenues	1,420.0	1,319.4	1,263.9	1,175.8	1,109.9
% change	7.6%	4.4%	7.5%	5.9%	3.7%
Cost of Products Sold	117.0	109.6	100.7	90.5	86.7
Operating Expenses	525.0	489.4	465.2	437.4	417.5
SG&A Expenses	189.0	175.5	178.6	170.9	162.2
Depreciation & Amortization	114.0	106.9	107.4	108.1	128.1
Stock-based Compensation	83.0	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	389.0	319.8	345.9	233.0	279.9
Interest Expense, net	81.5	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	302.0	233.3	263.2	160.0	203.9
Provision for Taxes	99.7	76.5	70.4	46.5	47.6
Net Income, Contin. Oper.	$202.3	$156.7	$192.8	$113.5	$156.3
Net Income Attrib. to Noncontrol. Int.	(39.5)	(38.4)	(38.2)	(38.0)	(38.3)
N.I. Attrib. to Six Flags, Contin. Oper.	$162.8	$118.3	$154.7	$75.5	$118.0
N.I. Per Diluted Share, Contin. Oper.	$1.75	$1.25	$1.58	$0.76	$1.17
Avg. Diluted Shares Outstanding	93.0	94.4	98.0	98.1	100.4
As a % of Total Revenues:					
Cost of Products Sold	8.24%	8.31%	7.97%	7.70%	7.81%
Operating Expenses	36.97%	37.09%	36.81%	37.20%	37.61%
SG&A Expenses	13.31%	13.30%	14.13%	14.54%	14.61%
Operating Income	27.39%	24.24%	27.37%	19.81%	25.22%
Modified EBITDA	42.54%	41.31%	41.11%	40.59%	40.02%
Adjusted EBITDA	39.79%	38.40%	38.09%	37.36%	36.41%
Depreciation & Amortization	8.03%	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	(74.0)	(68.8)	(70.5)	(66.7)	(51.3)
Capital Expenditures	(131.0)	(128.9)	(114.2)	(107.8)	(101.9)
Cash Taxes Paid	(25.0)	(17.3)	(15.0)	(16.8)	(13.8)
Free Cash Flow	**$335.0**	**$291.6**	**$281.7**	**$248.0**	**$237.1**
Dividends Paid	$238.0	$220.0	$201.0	$184.3	$176.2
% change	8.2%	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

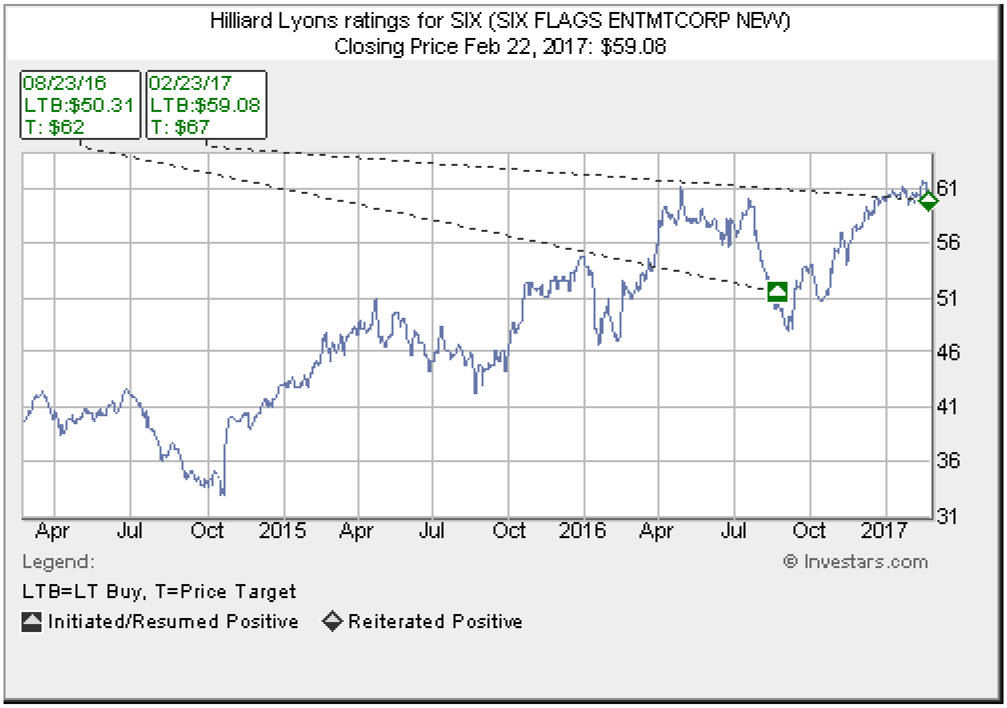
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 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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