Entertainment & Leisure
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COMPANY UPDATE / ESTIMATE CHANGE / RATING CHANGE

Key Metrics

SIX - NYSE (as of 10/4/17)		$61.83
Two-year Price Target		$69.00
52-Week Range		$50.33 - $65.19
Shares Outstanding (mil) (basic)		87.1
Market Cap. ($mil)		$5,388
3-Mo. Average Daily Volume		1,650,000
Institutional Ownership		91%
Total Debt ($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	4.1%
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	$1.70	$1.72		
4Q	$0.02	$0.08	$0.09		
Year	$1.25	$1.70	$1.74	$2.30	$2.32
P/E	49.5x		35.5x		26.7x

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	$573	$571		
4Q	$239	$250	$249		
Year	$1,319	$1,345	$1,342	$1,445	$1,440

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 — Long-term Buy-3

Lowering Rating to Long-term Buy

Investment Highlights

- **We are lowering our rating on SIX to Long-term Buy from Buy**. SIX shares have been strong lately, with no major positive news, in our view. We feel adverse weather and concerns of an industry lull this summer put pressure on the shares earlier this year, which prompted our upgrade to a Buy rating on 8/30/17. With recent appreciation, we feel valuation is more in line with our Long-term Buy rating.
- **The company generally had a challenging summer based on slightly disappointing 2Q results and lowered expectations for 3Q prospects.** Business was impacted during these periods by some adverse weather conditions. We also believe overall industry growth subsided a bit during the period. Finally, Hurricane Harvey in late August (Texas impact) and an earthquake in Mexico may have impacted attendance at local Six Flags properties.
- **We consider SIX a well-run, high-quality operator in the theme park industry.** We like the portfolio of properties, brand equity, and growth opportunities.
- **With a 4.1% 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.
- **Our two-year price target is $69 per share.** This assumes the same valuation (12x estimated forward adjusted EBITDA) that we used at the time of our purchase recommendation on 8/30/17. Now with a two-year time frame, our forward EBITDA figure is higher than with our one-year time frame. Our target price and expected dividends represent potential total return of roughly 10% based on the current price, about the minimum we typically seek for a purchase recommendation on SIX. Our Suitability rating remains 3, which is largely based on a leveraged balance sheet.

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

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 4.1%. 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 after 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. (EBITDA = earnings before interest, taxes, depreciation and amortization). 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 recently viewed this goal as "no longer probable."

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 feel EBITDA is the most-watched financial metric among investors in this industry.

We have fine-tuned our financial outlook, and expect further refinement following the release of 3Q results in late October. For all of 2017, we currently estimate net sales of $1.342 billion and adjusted EBITDA of $535 million, both representing slight decreases from our previous figures. For 2018, we estimate net sales of $1.440 billion and adjusted EBITDA of $585 million, also representing slight declines.

Valuation. Enterprise Value (using estimated year-end net debt figures) divided by our 2017 adjusted EBITDA estimate is 13.8x. The multiple is 12.5x based on our 2018 projections. This translates into an approximate 12.7x multiple on projected twelve-month forward adjusted EBITDA. We estimate a valuation range on forward adjusted EBITDA to be 10x-14x over the past five years.

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

		2018E	2017E	2016	2015	2014
Share Price (close on 10/4/17)	$61.83					
Diluted Share Count , most recent	88.8					
Market Capitalization	$5,492.5					
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)		$7,292.5	$7,362.5	$7,008.7	$6,898.3	$6,814.1
Adj. EBITDA (exclud. nonrecurring items)		$585.0	$535.0	$506.6	$481.4	$439.3
% chg.		9.3%	5.6%	5.2%	9.6%	8.7%
EV / Adj. EBITDA		**12.5x**	**13.8x**	**13.8x**		

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 believe SIX shares have attractive total return potential. Equity investors with a focus on income may find the shares compelling given the current 4.1% yield. We consider dividends well covered by cash flows, which we believe are on an upward trend due to the growth strategy in place. Moreover, we expect the announcement of a dividend raise in early November.

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 Long-term Buy and our two-year target price is $69 per share. This represents an Enterprise Value/adjusted EBITDA valuation of approximately 12x based on our estimate of forward EBITDA two years from now. This valuation compares to the current forward multiple of approximately 12.7x and an estimated range of 10x-14x over the past five years. With projected dividends, total return potential based on the current price is roughly 10%.

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, 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	$772.0	$723.0	$715.4	$687.8	$641.5
Food, Merchandise and Other	566.0	527.0	521.2	500.2	460.1
Sponsorship, Licensing, and Other	85.5	76.0	66.3	59.1	57.3
Accommodations	16.5	16.0	16.5	16.8	16.9
Total Revenues	1,440.0	1,342.0	1,319.4	1,263.9	1,175.8
% change	7.3%	1.7%	4.4%	7.5%	5.9%
Cost of Products Sold	118.0	110.0	109.6	100.7	90.5
Operating Expenses	535.0	497.0	489.4	465.2	437.4
SG&A Expenses	190.0	178.5	175.5	178.6	170.9
Depreciation & Amortization	111.0	108.5	106.9	107.4	108.1
Stock-based Compensation	35.0	39.9	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	405.8	319.8	345.9	233.0
Interest Expense, net	94.0	91.5	81.9	75.9	72.6
Loss on Early Exting. of Debt	0.0	37.0	2.9	6.6	0.0
Other Expenses (Income)	1.0	2.2	1.7	0.2	0.4
Income Before Taxes	356.0	275.1	233.3	263.2	160.0
Provision for Taxes	117.5	82.5	76.5	70.4	46.5
Net Income, Contin. Oper.	$238.5	$192.6	$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.	$199.5	$154.6	$118.3	$154.7	$75.5
N.I. Per Diluted Share, Contin. Oper.	$2.32	$1.74	$1.25	$1.58	$0.76
Avg. Diluted Shares Outstanding	86.0	88.9	94.4	98.0	98.1
As a % of Total Revenues:					
Cost of Products Sold	8.19%	8.20%	8.31%	7.97%	7.70%
Operating Expenses	37.15%	37.03%	37.09%	36.81%	37.20%
SG&A Expenses	13.19%	13.30%	13.30%	14.13%	14.54%
Operating Income	31.32%	30.24%	24.24%	27.37%	19.81%
Modified EBITDA	43.40%	42.85%	41.31%	41.11%	40.59%
Adjusted EBITDA	40.63%	39.87%	38.40%	38.09%	37.36%
Depreciation & Amortization	7.71%	8.08%	8.10%	8.50%	9.19%
Modified EBITDA	**$625.0**	**$575.0**	**$545.0**	**$519.6**	**$477.3**
% change	8.7%	5.5%	4.9%	8.9%	7.5%
Adjusted EBITDA	**$585.0**	**$535.0**	**$506.6**	**$481.4**	**$439.3**
% change	9.3%	5.6%	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	**$342.0**	**$304.0**	**$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	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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