NYSE: SIX – Short Recommendation

Tim Krauter 2018
Amy Ran 2019
Nick Palmer 2020
Sean Lee 2020
Yash Bhat 2020
Agenda

▪ Thesis

▪ Business Overview

▪ Industry Overview

▪ Negative Catalysts
  a. Season Pass Penetration
  b. Rival Parks
  c. International Expansion
  d. Taxes and Cash Usages

▪ Valuation
Thesis

1. **Season Pass Penetration**
   Misrepresentation of attendance growth and failure to account for season pass revenue recognition change

2. **Rival Domestic Parks**
   SIX’s largest park Great Adventure is vulnerable to rival park American Dream

3. **International Expansion**
   Unrealistic projected ticket prices and goals and inability to reach Project 750

4. **Taxes and Cash Usage**
   Overleveraged and lack of future tax redemption

**Price Target**

Base case weighted price target of **$34.91**, implying a **43.2% downside**
Overview
Business Overview

Products and Offerings

Revenue Breakdown

- Theme Park Admissions: 54%
- Food & Merchandise: 40%
- Sponsorship, Licensing & Fees: 5%
- Accommodations Revenue: 1%

Revenue and Profitability

Seasonal Business

- The business is also inherently seasonal with ~72% of SIX’s revenues coming in Q2/Q3
- Set to change with new revenue recognition standards
**Business Overview**

**Historical Growth**

SIX stated it will not build new domestic parks and growth has been by “creative” means like:

- Introducing off-season events
- Selling non-core assets
- Licensing the SIX brand to third parties

**Regional Focus**

- 16 regional parks in the United States
- 2 in Mexico and Canada
- Serves as a local attraction with 85% of guests residing within 150 miles of each park

**Bankruptcy**

June 2009:Filed for Chapter 11 bankruptcy due to:

- Excessive leverage of 11.8x EBITDA
- Economic recession
- Attendance, revenue, and EBITDA were down 6%, 11%, and 28%, respectively
- Restrictive covenants, put in place to avoid future defaults, will make financing cash obligations challenging
### Industry Overview

#### Broad Set of Competitors
- Competes for discretionary spending dollars with a broad set of entertainment providers including:
  - Family entertainment
  - Gaming zones
  - Sports venues

#### Shift to International Parks
- New locations: China and Dubai
- International parks historically take 3-5 years to achieve operating profitability
- Challenges exporting American theme park concept to international markets

#### Industry Overview
- Highly susceptible to swings in discretionary income:
  - $400-600mm to build a typical park
  - High maintenance Capex
  - Considerable fixed costs

#### Industry Outlook
- New attractions drive repeat attendance since domestic growth opportunities are limited
- Top 25 theme parks in the U.S. with YoY attendance declines
- Similar trends in APAC and EMEA

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**Thesis** | **Business Overview** | **Industry Overview** | **Catalysts** | **Valuation**
Catalysts
Higher Penetration

- SIX is increasing the penetration of season tickets by lowering prices
- Effectively SIX is lowering unique attendance by 5% per year, which is the true driver of revenue

Revenue Recognition

- SIX recognizes new season pass revenue based on attendance, but recurring passes are booked as even monthly subscription
- This effectively smooths revenue and EPS, but all analyst still model revenue recognition based on attendance leading to catastrophic misses for Q2 and Q3
Catalysts – Rival Parks

Three New Parks

- **Three new rival parks** are opening in 2018 and 2019 near Six Flag Parks

- SIX’s largest park Great Adventure, which brings in **21% of revenue**, is extremely vulnerable to a planned rival park called **American Dream**

American Dream

- Two indoor theme parks, Lego-land Discovery Center, indoor ski slope, and indoor water park

- Integrated shopping malls, restaurants, and ice rink and a full Sea Life Aquarium
Catalysts – Rival Parks

American Dream

- American Dream is on average a **one hour closer** drive for 75% of Great Adventure’s population basin
- Surveys indicate a 20 - 30% drop in attendance and comps show a possible 40 - 60% drop in attendance
- High fixed cost could lead to **25% reduction in FCF**

Analyst Miss

- Only recently was the park reconfigured as a theme park
- Only recently became fully funded
- SIX has never mentioned the park in an investor call and has continuously denied the possibility of a new rival park
Catalysts – International Expansions

### Thesis

<table>
<thead>
<tr>
<th>Business Overview</th>
<th>Industry Overview</th>
<th>Catalysts</th>
<th>Valuation</th>
</tr>
</thead>
</table>

### Unreasonable ‘Franchising’ Expectation

<table>
<thead>
<tr>
<th>Project 750 Additional EBITDA Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>14% Existing U.S. Parks</td>
</tr>
<tr>
<td>13% Growth from U.S. Parks</td>
</tr>
<tr>
<td>73% Growth from International Licensing</td>
</tr>
</tbody>
</table>

**Assuming $100m EBITDA growth in U.S. Parks, international licensing fees have to provide at least $105m to meet Project 750**

### Unrealistic Project 750 Goal in 2020

1. **Licensing** Key to Reaching Project 750
2. Heavy Reliance on Success in **Dubai**
3. International Expansion to Disappoint

### Wells Fargo Analyst: “Each international park is expected to contribute … $10MM-$20MM/year post-opening”

**= Improbable Expectations**
Catalysts – International Expansions

**Flawed Pricing of Upcoming Dubai Park**

**Fig 5** Dubai Parks & Resorts had significant price discounts over the summer

<table>
<thead>
<tr>
<th>Park</th>
<th>Initial Price (late 2015)</th>
<th>Summer Special Price</th>
<th>Post-Summer Tickets Price</th>
<th>Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motiongate</td>
<td>285</td>
<td>145</td>
<td>265</td>
<td>7%</td>
</tr>
<tr>
<td>Opening Discount</td>
<td>240</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legoland</td>
<td>295</td>
<td>145</td>
<td>265</td>
<td>10%</td>
</tr>
<tr>
<td>Bollywood</td>
<td>285</td>
<td>85</td>
<td>215</td>
<td>25%</td>
</tr>
<tr>
<td>Legoland Water Park</td>
<td>240</td>
<td>145</td>
<td>215</td>
<td>10%</td>
</tr>
<tr>
<td>Average</td>
<td>276</td>
<td>130</td>
<td>240</td>
<td>13%</td>
</tr>
<tr>
<td>Six Flags Dubai (2019e)</td>
<td>309</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Dubai Parks & Resorts, Macquarie Capital (USA), August 2017. All prices in AED.

**Significant Competition**

- **IMG World of Adventure – Opened in 2016**
- **Ferrari World Abu Dhabi**
  - Forecasts **less than half visitors** than Six Flags
  - Boasts Formula Rossa, world’s fastest rollercoaster at 149mph
  - Indoors vs. Six Flags Dubai being outdoors
- **Seaworld Abu Dhabi – Opening in 2022**
- **Legoland Water Park**
- **Hollywood Theme Park**
- **Warner Bros. Park**
Catalysts – Taxes and Cash Usages

NOL Carryover

2010
$1.2 B of NOLs on the balance sheet from bankruptcy

2018
Expected to start paying an effective tax rate of 33.6%, a huge hit to cash flow

Significant Cash Usages

- SIX has significant cash requirement due to:
  a. Capital intensive rides
  b. New rides driving re-attendance
  c. Maintaining existing rides
- Cannot cut capital expenditures without sacrificing revenue and attendance

Dividend Unsustainability

- Payout ratio of 250%
- Leveraging for an unstable dividend

Share repurchases

- Repurchase shares to partially offset SBC dilution
- Since SIX is levered 4.7x (highest in industry), they:
  - Cut dividends
  - Decrease share repurchases
  - Reduce capital expenditure

Thesis Business Overview Industry Overview Catalysts Valuation
### Valuation Drivers and Assumptions

<table>
<thead>
<tr>
<th>Drivers</th>
<th>Key Assumptions: Base Case</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Attendance</strong></td>
<td>Use management guidance on season passes &amp; reduce attendance from rival parks</td>
</tr>
<tr>
<td><strong>In Park</strong></td>
<td>We reduce in park spending at a rate lower than the reduction in attendance</td>
</tr>
<tr>
<td><strong>Costs</strong></td>
<td>Fixed cost compress margins, tax rate increases to 33%, and CapEx says flat</td>
</tr>
</tbody>
</table>

Key Assumptions: Bear Case

| Attendance       | Attendance falls more dramatically as all rival parks are successful                    |
| In Park          | In park spending at a faster rate than the reduction in attendance                       |
| Costs            | Fixed cost compress margins, tax rate increases to 33%, and CapEx says flat             |

Key Assumptions: Bull Case

| Attendance       | Attendance increases as rival parks do not open                                         |
| In Park          | In park spending increases due to new brands and IP                                     |
| Costs            | Margins stays constant, tax rate increases to 33%, and CapEx stays flat                 |
**Valuation**

### Base, Bear, and Bull Case

<table>
<thead>
<tr>
<th>Case</th>
<th>Target</th>
<th>Implied Upside</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bear</td>
<td>$31.31</td>
<td>-49.10%</td>
</tr>
<tr>
<td>Base</td>
<td>$34.91</td>
<td>-43.20%</td>
</tr>
<tr>
<td>Bull</td>
<td>$70.55</td>
<td>14.20%</td>
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### Sensitivity Analysis

<table>
<thead>
<tr>
<th>Return Sensitivity - WACC/Terminal Growth</th>
</tr>
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<tbody>
<tr>
<td>Beta</td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
<td>0.65</td>
</tr>
<tr>
<td>0.70</td>
</tr>
<tr>
<td>0.75</td>
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<tr>
<td>0.80</td>
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<tr>
<td>0.85</td>
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</tbody>
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### Valuation Summary

- **P/E**: 20
- **EV/EBITDA**: 10
- **DCF**: 17
- **52 Week Hi/Lo**: 17