Market Cap: $1.78 billion

2021 Revenue: $1.49 billion

Current Price: $21.35

Target Price: $23.79 (11.4%)

Analysts

Brandon Cheng

Jack Oseback

Rishi Gorrepati

Jason Sutton

Six Flags Entertainment Corporation

NYSE: SIX

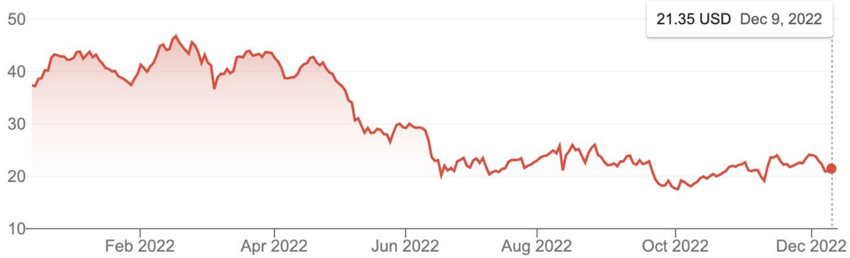
BUY - HOLD

December 11th, 2022

Business Overview

- Six Flags is the world's largest regional theme park company, with a target on North America. It offers 27 total parks, including 2 in Mexico, 1 in Canada, and 24 in the US
- Revenue streams: theme park admissions prices, food and merchandise purchases at theme parks, and fees earned from domestic and international sponsorship & licensing fees
- Costs: maintaining current facilities, building new attractions to attract new customers, and land costs for expansion.
- By moving towards a business model of less attendance but increased ticket prices, Six Flags hopes to attract higher-spending families and increase profits and revenue/capita.

52 Week Range	$16.83 - $47.24
P/E Ratio	18.71
ROE (YoY Q3)	-22.44%



Industry Analysis

- Slight bearish outlook – undervalued?
  - The global amusement parks market size was valued at USD 45.2 billion in 2017. It is likely to expand at a **CAGR of 5.8%** from 2018 to 2025
  - The global amusement parks market size reached US$ 48.8 Billion in 2021. Looking forward, the publisher expects the market to reach US$ 65.7 Billion by 2027, exhibiting a **CAGR of 5.08%** during 2021-2027
- Change in business models
  - Because of the COVID-19 pandemic, the theme park industry's goal will no longer be to attract as many customers as possible and maximize land use
    - With fewer customers and more pricing, theme parks will look to add value to their experiences and make them more immersive. Disney is already running this high-price immersive experience model at Star Wars: Galactic Starcruiser hotel
      - Smaller regional theme parks may not be able to adapt to the luxury business model that larger ones can afford to adapt
- Competing with socially distant alternatives of entertainment

Growth Drivers

Increased In-Park Spending

- 14% increase in in-park spending YoY*
- For single-day tickets, 34% increase in in-park spending from 2019-2021
- New attractions annually per park / new initiatives

Revenue Streams (2021%):

1. Ticket Sales (53%)
2. In-park Spending (44%)
3. Licensing/Sponsorship (3%)

Membership Pass increases

- 123% increase in member/season ticket revenue despite 3% decline in total ticket revenue (2019 vs. 2021)
- Auto-renewal prices and higher annual prices
- Higher expected member sales post-Covid (more security on season-long investment)

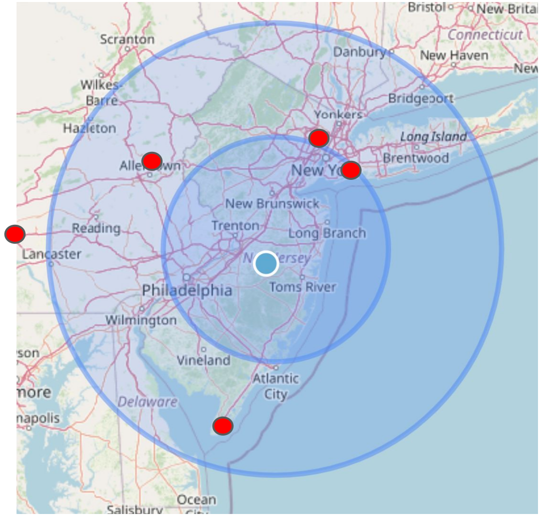
Expansion Strategies / Limited Competition

- Saudi park in development, expected expansion across North America in decade
- In order to bring to market a viable competitor, it would take 4 years/$700 million for a park comparable to one of Six Flags 27 theme parks

*excluding 2020 because of shortened season

Competitive Positioning: Case Study

Six Flags in Jackson, NJ



510 acre park with 58 attractions (7 roller-coasters) and an included water park. Originally built in 1974, it was acquired by Six Flags in 1977. 2021 attendance was 2.9 million.

Insight #1: Six Flags locations are found near critical highly-populated areas in order to maintain a strong consumer base.

Six Flags Great Adventure, in Jackson, NJ, is able to target major large population centers of Philadelphia (4th largest) and New York (1st largest). 14.5 million people sit within 50 miles of the park, with 29.6 million reside within 100 miles. Six Flags has parks near each of the top 11 geographical areas, including Chicago, Los Angeles, Houston, and Mexico City.

Insight #2: Six Flags dwarfs smaller amusement parks in size and avoids directly conflicting with larger amusement parks.

Dorney Park (200 acres, 44 attractions), Morey's Park (family-owned), Coney Island (~15 acres, ~40 attractions), and Nickelodeon Indoor Theme Park (8.5 acres, 30 attractions) are examples of small parks that offer a much less expansive experience than Six Flags. Hershey Park (121 acres, 76 attractions) is comparable in terms of attendance figures, but located almost 150 miles away. Even in crowded marketplaces, such as Los Angeles, Six Flags parks remain competitive by building elaborate, fast roller coasters.

Competitive Positioning: Industry Landscape

Top Competitors

Cedar Fair Entertainment Company

Disney Parks — Where dreams come true

SeaWorld

Universal Parks & Resorts

Kalahari Resorts & Conventions

Herschend Family Entertainment

Insight #1: Six Flags operates more parks than direct rivals Cedar Fair and Sea World and compete at different scales compared to smaller and larger players.

Cedar Fair, with $1.37 billion in 2021 revenue, operates 13 parks, the largest of which is Cedar Point in Sandusky, OH. SeaWorld, with $1.5 billion, operates 12 thematic parks with a zoological element. By contrast, Six Flags operates 27 parks in various locations, with broader geographical diversity and a focus on the roller-coaster experience. Regional, family-owned parks are more sensitive to geographical fluctuations. Universal and Disney, by contrast are moving away from physical attractions and towards more digital offerings.

Insight #2: Six Flags's recognizable brand image leads to reliable sponsorship and partnerships.

Six Flags recently announced a renewal of its agreement with Athletes First Partners, which will lead to increased marketing exposure due to collaborations with famous athletes and potentially additional brand recognition. Six Flags has strong corporate relationships with a number of major brands, including Heinz and Coca-Cola.

Six Flags

Investment Thesis

Transition to new pricing model not factored in

- Decreased park attendance has created uncertainty and scared investors, but this reflects an intentional movement to "premiumize" the experience for attendees
- Pivot towards an immersive and complete customer experience will increase spending per capita, so the net effect on revenue will be washed out. Lesser reliance on attendance figures reduces in-park crowding and eases operational pressures.

Focus on core business will drive the pandemic rebound

- Six Flags returned strongly in 2021 towards pre-pandemic numbers, can continue to rebound strongly
- Pandemic led to the retirement of old, cash-bleeding roller-coasters and attractions, post-pandemic, to invest cash strategically into amusement park development
- Focus on domestic improvement not international expansion → better customer experience

Unparalleled theme park experience has few substitutes

- Roller-coasters and water parks are a thrill attraction that is impossible to simulate digitally and capture consumer interests
- Continued development of holiday shows and performance aspect can supplement park offerings and drive revenue and profits

Financial Valuation

Discounted Cash Flow and Comparable Companies Analysis

DCF Part 1

									In-Park Spending Percentage		q1-q3	q3			
											0.4285711543	0.4141988392			
											0.4195425788				
	Actual (in Millions)					Actual							Forecasts		
Fiscal year ended	12/31/16	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	Q3 2021	Q3 2022	Q1-Q3 2021	Q1-Q3 2022	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26
Revenue (in Millions)	**1319**	**1359**	**1464**	**1488**	**357**	**1,496.91**	**638**	**504**	**1,180,095**	**1,078,360**	**1,255**	**1,346**	**1,441**	**1,542**	**1,650**
% growth		3.0%	7.7%	1.6%	(76.0%)	319.3%		**(21.0%)**		**(8.6%)**	**(16.2%)**	**6.755%**	**6.568%**	**6.569%**	**6.570%**
Yearly Park Attendance (number of people)	30.11	30.42	32.02	32.82	6.79	27.69	12.00	8.00	21.90	16.40	19.22	20.18	21.19	22.25	23.36
% growth in park attendance		1.04%	5.27%	2.49%	-79.32%	307.91%		-33.33%		-25.11%	-31%	5.00%	5.000%	5.000%	5.000%
Attendance Revenue	715.41	741.28	810.06	815.78	202.65	795.65	345.22	280.50	634.72	595.27	699.06	748.70	801.85	858.78	919.76
In-Park Spending Revenue	521.17	524.58	553.53	574.44	126.31	655.45	280.50	209.10	510.62	446.45	505.27	541.14	579.56	620.71	664.78
Total Revenue (from Parks)	1,236.58	1,265.86	1,363.59	1,390.22	328.95	1,451.10	638.28	504.83	1,145.34	1,041.72	1,204.33	1,289.84	1,381.42	1,479.50	1,584.54
Total Revenue (from Parks) per Capita	41.07	41.61	42.58	42.36	48.45	52.40	53.19	63.10	52.30	63.52	62.66	63.91	65.19	66.49	67.82
% growth		1.31%	2.33%	-0.52%	14.39%	8.14%		18.64%		21.46%	20%	2.00%	2.00%	2.00%	2.00%
Sponsorship, International Agreements	82.82	93.22	100.12	97.36	27.62	45.81	12.57	15.23	34.76	36.65	50.69	56.10	59.15	62.36	65.74
% growth		12.56%	7.40%	-2.75%	-71.63%	65.82%		21.16%		5.43%	10.67%	10.67%	5.43%	5.43%	5.43%
Operating Expenses (Book)	**490.12**	**511.87**	**574.72**	**607.79**	**389.73**	**647.25**					**668.48**	**701.91**	**737.00**	**773.85**	**812.54**
Operating Expenses excl. Litigation	490.12	511.87	574.72	607.79	389.73	636.65									
% growth		4.4%	12.3%	5.8%	(35.9%)	4.7%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Cost of Products Sold	109.60	110.37	121.83	130.30	34.12	125.73					106.31	113.86	121.94	130.60	139.87
% as part of in-park spending revenue	21.03%	21.04%	22.01%	22.68%	27.01%	19.18%	21.04%	21.04%	21.04%	21.04%	21.04%	21.04%	21.04%	21.04%	21.04%
Gross Profit	**719.29**	**736.75**	**767.45**	**749.91**	**(66.85)**	**723.93**					**586.54**	**644.03**	**703.56**	**768.00**	**837.74**
% Gross Margins	**54.53%**	**54.21%**	**52.42%**	**50.40%**	**-18.72%**	**48.36%**					**46.74%**	**47.85%**	**48.84%**	**49.81%**	**50.76%**
SG&A	291.79	159.07	132.17	199.19	147.30	211.38					221.95	233.05	244.70	256.93	269.78
% growth		-45.49%	-16.91%	50.71%	-26.05%	6.12%					5.00%	5.00%	5.00%	5.00%	5.00%
EBITDA	**427.49**	**577.68**	**635.28**	**550.71**	**(214.14)**	**512.55**					**364.59**	**410.99**	**458.86**	**511.07**	**567.95**
% margin	32.41%	42.51%	43.39%	37.01%	-59.98%	34.24%									
Depreciation & amortization	106.893	111.671	115.693	118.23	120.173	114.434					119.01	123.77	128.72	133.87	139.23
% growth		4.47%	3.60%	2.19%	1.64%	-4.78%					4%	4%	4%	4%	4%
EBIT (Operating Income)	**320.60**	**466.01**	**519.59**	**432.48**	**(334.31)**	**398.11**					**246**	**287**	**330**	**377**	**429**
% margin	24.31%	34.29%	35.49%	29.06%	-93.65%	26.60%					20%	21%	23%	24%	26%
Tax on EBIT	0.76	0.16	0.92	0.49	(140.90)	0.91									
Tax rate	0.24%	0.03%	0.18%	0.11%	42.15%	0.23%					21.0%	21.0%	21.0%	21.0%	21.0%
NOPAT (aka EBIAT)	**319.84**	**465.85**	**518.67**	**431.99**	**(193.41)**	**397.20**					**194**	**227**	**261**	**298**	**339**
Changes in net working capital		-4.47	-50.67	-20.825	175.414	-18.7					(19.76)	(20.16)	(20.56)	(20.97)	(21.39)
											2%	2%	2%	2%	2%
Capital expenditures		-135.22	-135.26	-143.91	-100.88	-121.75					-129.53	-137.81	-146.62	-155.99	-165.95
% growth			0.03%	6.39%	-29.90%	20.69%					6.39%	6.39%	6.39%	6.39%	6.39%
Unlevered free cash flows (UFCF)											**164**	**193**	**222**	**255**	**291**

DCF Part 2

	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26
Present value of UFCF on Dec 11, 2022 valuation date	147.50	156.40	162.58	167.91	172.44

Terminal value - EBITDA multiple approach		**Terminal value - growth in perpetuity approach**	
WACC	11.0%	WACC	11.00%
Terminal year EBITDA	429	Long term growth rate	2.50%
EBITDA multiple	4.9x	2026 FCF x (1+g)	298
Terminal value in 2026	2,079	Terminal value in 2026	3,504
Present value of terminal value	1,364	Present value of terminal value	1,873
Present value of stage 1 cash flows	2,680	Present value of stage 1 cash flows	2,680
Enterprise value (stage 1 + 2)	**4,044**	**Total enterprise value (TEV)**	**4,554**
		Net Debt	2,238
	$21.25	**Equity Value (EV)**	2,316
		Number of shares	84.992
		EQUITY VALUE PER SHARE	$27.25

Comparable Companies Analysis

Comparible Companies Analysis				as of 12/10/2022								
		Market Data					Financials			Valuation		
Company	Ticker	Share Price	Shares Outstanding	Equity Value (millions)	Net Debt (from Yahoo Finance)	Enterprise Value	Revenue (TTM)	EBITDA	Net Income	EV/Rev	EV/EBITDA	P/E
Six Flags	SIX	21.35	84,419,384.00	$1,802,353,848.40	$2,315,906.00	$1,804,669,754.40	$1,395,170,000.00	$451,219,000.00	$93,560,000.00	1.29x	4.00x	19.26x
SeaWorld	SEAS	52.72	87,781,168.00	$4,627,823,176.96	$1,673,128.00	$4,629,496,304.96	$1,711,537,000.00	$645,013,000.00	$313,718,000.00	2.70x	7.18x	14.75x
Cedar Fair	FUN	40.19	56,440,460.00	$2,268,342,087.40	$2,457,817.00	$2,270,799,904.40	$1,802,325,000.00	$658,029,000.00	$268,094,000.00	1.26x	3.45x	8.46x
Parks Disney	DIS	93.38	1,488,670,976.0	139012095739	$9,023,587.29	$34,138,309,663.26	$20,309,331,988.49	$6,203,821,574.68	$2,044,250,000.00	1.68x	5.50x	9.93x
Maximum										2.70x	7.18x	19.26x
Average										**1.73x**	**5.03x**	**13.10x**
Median										**1.49x**	**4.75x**	**12.34x**
Minimum										1.26x	3.45x	8.46x
Six Flags Evaluation										EV/Rev	EV/EBITDA	P/E
Implied Enterprise Value										$2,420,352,949.40	$2,270,828,501.91	
Net Debt										$2,315,906.00	$2,315,906.00	
Implied Market Value										$2,418,037,043.40	$2,268,512,595.91	$1,225,905,942.19
Shares Outstanding										84,419,384.00	84,419,384.00	84,419,384.00
Implied Value Per Share										**$28.64**	**$26.87**	$14.52

Six Flags Evaluation	EV/Rev	EV/EBITDA	P/E
Implied Market Value	$2,418,037,043.40	$2,268,512,595.91	$1,225,905,942.19
Shares Outstanding	84,419,384.00	84,419,384.00	84,419,384.00
Implied Value Per Share	**$28.64**	**$26.87**	$14.52

*I used disney's parks segment from their annual reports to develop their Enterprise Value, Rev, +

Risks, ESG, and Conclusion

Final Considerations on Six Flags

Risk Factors and Mitigations

Risk #1: Lingering pandemic-related closures or fears may reduce attendance figures, decreasing revenue.

Mitigation: COVID infection rates and policies are easing in the United States, so the business is generally rebounding well. Premiumization model that emphasizes spending per capita can also ease COVID pressures.

Risk #2: Inflationary pressures squeeze consumer disposable income, forcing difficult choices regarding entertainment.

Mitigation: Inflation is cooling down across the world, leading to more stability relating to consumer income. Inflation may actually encourage customers to rethink subscription-based entertainment.

Risk #3: High costs of development and continued supply chain issues results in reduced capacity to replace damaged equipment.

Mitigation: Post-Covid plans to slow new park development with emphasis on return to normalcy in park operations and management. Furthermore, scattered locations are a natural hedge against geographical policy and weather conditions.

Risk #4: Uncertainty in labor law and wages continue to lead to high operating expenses

Mitigation: Strong control over its own workforce, rather than contractual work, enables greater management projection of costs. Operational efficiency can reduce labor needs.

ESG Considerations

DEI

- Team members are required to complete annual DEI compliance training
- Implemented group coaching sessions to explore blind spots
- An independent analysis found no wage disparity
- Six Flags' commitment to DEI, and training their workforce helps them bring in more park visitors from all backgrounds
- Six Flags directly employs 95% of their staffing → increased control over the customer-staff interactions at parks

Social Responsibility

- $100 million/yr spent on park safety
- All full time members have financial incentives aligned with guest safety and satisfaction metrics
- Guest complaints are responded to within six hours
- Six Flags' focus on guest safety helps decrease the number of injuries at the park, decreasing bad press, lessening the likelihood of expensive lawsuits, and attracts more satisfied guests

Sustainability

- 20% of energy used is renewable
- 35 metric tons worth of CO_2e avoided through oil & solvent recycling
- All restaurant & snack stands now use compostable containers
- A focus on using renewable energy will help the business, but they have created solar facilities at only two parks.
- Location specific sustainability requirements enables flexibility for park managers, not an inefficient corporate mandate

Sources

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Questions