

The Madison Square(MSG)

\$301.51 (As of 02/10/20)

Price Target (6-12 Months): **\$317.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: F

Summary

Shares of Madison Square Garden have outperformed the industry in the past year. The company reported second-quarter fiscal 2020 results, wherein earnings surpassed the consensus estimate but revenues lagged the same. Top line missed the estimate for the fourth straight quarter. However, the company is consistently benefiting from ongoing efforts to reinstate growth through multi-night and multi-marketing agents. The company continues to focus on partnership and acquisitions to drive growth. However, intense competition in the entertainment business along with high expenses is a concern. Also, cyclical nature of the entertainment industry and worsening of global economic conditions might dent revenues as well as profits. Of late, estimates for current year have witnessed downward revisions.

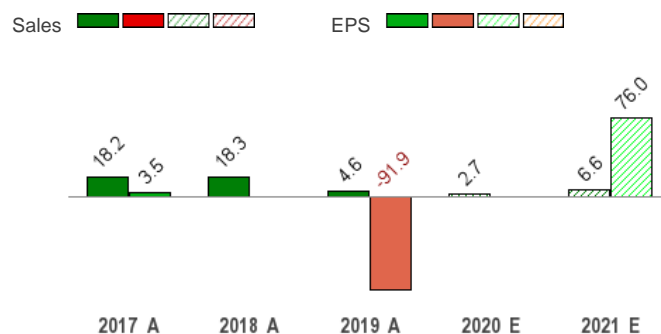
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$315.95 - \$247.58
20 Day Average Volume (sh)	144,625
Market Cap	\$7.2 B
YTD Price Change	2.5%
Beta	0.57
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Leisure and Recreation Services
Zacks Industry Rank	Bottom 18% (209 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	63.1%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	-90.5%
Expected Report Date	05/13/2020
Earnings ESP	-5.7%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	233 E	674 E	573 E	316 E	1,786 E
2020	215 A	629 A	528 E	295 E	1,675 E
2019	218 A	632 A	517 A	264 A	1,631 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$2.49 E	\$3.15 E	\$1.57 E	-\$2.16 E	-\$0.48 E
2020	-\$3.36 A	\$3.93 A	\$0.92 E	-\$2.05 E	-\$2.00 E
2019	-\$1.36 A	\$3.42 A	\$1.48 A	-\$3.08 A	\$0.48 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/10/2020. The reports text is as of 02/11/2020.

Overview

The Madison Square Garden is a Delaware-based provider of live experiences, including celebrated venues, legendary sports teams, exclusive entertainment productions and other entertainment assets. The company was incorporated on Mar 4, 2015, as an indirect, wholly-owned subsidiary of MSG Networks Inc. The company presents a broad array of premier events in its diverse collection of venues.

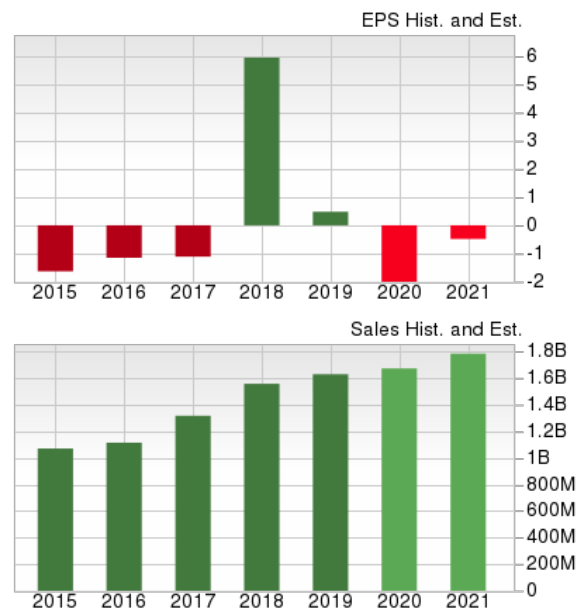
Other MSG properties include legendary sports franchises: the New York Knicks (NBA) and the New York Rangers (NHL); two development league teams —the Westchester Knicks (NBAGL) and the Hartford Wolf Pack (AHL); and esports teams and Knicks Gaming, MSG's NBA 2K League franchise. In addition, the company features the popular original production, the Christmas Spectacular, starring the Radio City Rockettes. It organizes New England's preeminent Boston Calling Music Festival as well.

Madison Square Garden also owns the TAO Group, which is a world-class hospitality group, with globally-recognized entertainment dining and nightlife brands including Tao, Marquee, Lavo, Avenue, Beauty & Essex and Cathédrale — operates in New York, Las Vegas, Los Angeles, Chicago, Australia and Singapore.

The company manages business via two segments, namely MSG Sports and MSG Entertainment.

The **MSG Sports** segment (50.3% to consolidated revenues in second-quarter fiscal 2020) owns and operates professional sports franchises, including the New York Knicks and the New York Rangers. MSG Sports also owns and operates the New York Liberty of the Women's National Basketball Association and Hartford Wolf Pack of the American Hockey League. The segment primarily generates revenues from ticket sale, suite rental fees at The Garden, and distributions from NHL and NBA league. The segment also derives substantial revenues from the local media rights associated with MSG Networks.

The **MSG Entertainment** segment (49.7%) is the leading provider of live entertainment. In the company's pre-eminent venues like The Garden, The Theater at Madison Square Garden, Radio City Music Hall, the Beacon Theatre, the Forum, and The Chicago Theatre, this part of the business hosts live entertainment events including concerts, family shows, performing arts events and special events.



Reasons To Buy:

▲ **Strong Brand Presence:** In addition to maintaining iconic venues in top live entertainment markets, Madison Square Garden owns legendary sports franchises that drive its strong brand power. Furthermore, the company has a strong industry presence, which allows it to explore opportunities for new content and brand extensions. It is expected to tread on the growth trajectory, given its first-class operations coupled with innovations and the ability to deliver top-class experiences to guests.

A strong brand presence, efficient innovations in operations and continual expansion through acquisitions and partnerships bode well.

▲ **Operational Efficiency:** Madison Square Garden continues to benefit from ongoing efforts to reinstate growth through multi-night and multi-marketing agents. In September 2019, the company announced expanded multi-year agreement with the Hospital for Special Surgery, which provides long-term partner with significant brand exposure across the Knicks, Westchester Knicks, and NBA 2K18 Knicks Gaming. The company's iconic venues hosted a diverse range of concerts, marquee events and family shows with immaculate operational expertise. It also held the 60th Annual Grammy Awards that further proved how skillful its operational team is. Madison square Garden is relentlessly trying to add value to core operational team by utilizing its proficiency in areas like marketing partnerships and media rights.

In fiscal 2018, Madison Square Garden witnessed double-digit sponsorship and signage growth. The company renewed partnership agreements with Delta Air Lines, Charter Communications and Kia, and added Squarespace as a new partner, who would sponsor the first ever Knicks Jersey. During the third quarter of fiscal 2019, the company completed marketing partnership agreements with Counter Logic Gaming, including one with Newegg. As part of the partnership, Newegg is to present as the official online technology retail partner for CLG Sport '19, with brand integration across a variety of CLG's assets. In the entertainment business, the company partnered with Hulu and Montefiore Health System.

Last year, Madison Square Garden also announced a multifaceted partnership with PepsiCo, which has been serving as the company's official signature food and beverage partner. Further, PepsiCo is an official partner of the Knicks, Rangers and Counter Logic Gaming as well as the Christmas Spectacular Starring the Radio City Rockettes. The company also announced that Tedeschi Trucks Band will play on multiple shows annually through 2022 at both Beacon Theatre and the Chicago Theatre. Meanwhile, with innovative venues like MSG Sphere, the company aims to transform the live entertainment industry by offering cutting-edge video, acoustics and connectivity technologies to audiences and storytellers for the purpose of interaction.

▲ **Continual Asset Building Through Partnerships and Acquisitions:** In order to strengthen footprint and explore additional opportunities, Madison Square Garden has been consistently relying on partnerships and acquisitions. Earlier, management announced that it will acquire a parcel of land in London to build another "Sphere", with the intent of transforming music/event scenario. This new venue is expected to debut in 2021.

Meanwhile, the company has made significant progress with respect to the construction of MSG Sphere at The Venetian in Las Vegas. The current cost estimate, inclusive of core technology and soft costs, for MSG Sphere at The Venetian is approximately \$1,660,000, net of \$75,000 that the Las Vegas Sands Corp. has agreed to pay to defray certain construction costs. It also excludes significant capitalized and non-capitalized costs for items such as content creation, internal labor as well as furniture and equipment.

Moreover, the company expects the state-of-the-art entertainment venue to have a number of significant revenue streams, including a wide variety of content such as attractions, concert residencies, corporate and select sporting events as well as sponsorship and premium hospitality opportunities. It expects to generate substantial revenues and adjusted operating income on an annual basis. The company aims to open MSG Sphere at The Venetian in calendar year 2021. Moreover, the company is confident about the success of its business in Las Vegas as the region is one of the world's top entertainment spot, attracting more than 40 million visitors every year.

The company procured a majority stake at the entertainment, dining, and nightlife company TAO that has enabled to grow its portfolio from 19 to 26 venues. Venue expansion remains the primary strategy for Madison Square Garden as it allows marketing partners to showcase their brands in powerful and innovative ways, by leveraging the venue's unique platform. Notably, in 2014, the company acquired 50% interest in Tribeca Enterprises, owner of the acclaimed Tribeca Film Festival. In 2016, Madison Square Garden acquired an approximately 12% common equity stake in Townsquare Media, a leading media, entertainment and digital marketing solutions company.

Reasons To Sell:

- ▼ **Dismal Top-Line trend:** Investors are not impressed with the company's top-line performance. Madison Square Garden's has missed the consensus mark in the trailing four quarters. Moreover, the company's top line has also declined 17%, 1.4% and 0.5% in the trailing three quarters. The decline was primarily caused by dismal performance in the Entertainment segment.
- ▼ **Entertainment Business a Concern:** Madison Square Garden operates in a market where numerous sports and entertainment options are prevalent. This remains a potential threat to the company's ticket sale prices and profits. Revenues in the Entertainment segment witnessed a decline of 1.2% in second-quarter fiscal 2020 primarily due to lower event-related revenues at the company's venues. The winding down of Obscura Digital's third-party business and the expiration of the booking agreement with the Wang Theatre, also impacted the segment's revenues. The company is trying to spin off its entertainment business.
- ▼ **Dependence on Discretionary Spending:** Cyclical nature of the entertainment industry and the worsening of global economic conditions might, in turn, dent the company's revenues, and profits. Consumer demand for services is closely linked to performance of the general economy, and is sensitive to business and personal discretionary spending levels. Decline in consumer demand due to adverse general economic conditions, poor travel patterns, lower consumer confidence and high unemployment can lower revenues and profitability of Madison Square.
- ▼ **Valuation Looks Stretched:** As Madison Square Garden significantly outperformed the industry in a year's time, its valuation looks a bit stretched compared with its own range as well as the industry average. The company currently has a trailing 12-month EV/EBITDA ratio of 49.93. The stock is relatively overvalued right now compared with its peers as the industry average EV/EBTDA multiple currently stands at 8.94x.
- ▼ **High Expenses Concern:** Madison Square Garden has been bearing the brunt of high expenses for quite some time now. While the company's operational efforts and partnerships are likely to add to its top-line growth, expenses related to such initiatives have been hurting overall profits. In first-quarter fiscal 2020, Madison Square's SG&A expenses increased 8.4% on a year-over-year basis.

Intense competition in the Entertainment business and tricky nature of consumer discretionary spending are potential headwinds.

Last Earnings Report

Madison Square Garden's Q2 Earnings Top Estimates

The Madison Square Garden reported mixed second-quarter fiscal 2020 results, with earnings beating the Zacks Consensus Estimate and revenues missing the same.

The company reported adjusted earnings of \$3.93 per share, which beat the Zacks Consensus Estimate of \$2.41 by 63.1%. Also, the figure increased from the year-ago quarter's earnings of \$3.42 by 14.9%.

Revenues during the quarter totaled \$628.8 million, which missed the consensus mark of \$640 million by 1.7%. Also, the top line dropped 0.5% year over year. The decline was primarily caused by dismal performance in the Entertainment segment.

Segmental Performance

Revenues in the **Entertainment** segment totaled \$312.7 million, down 1.2% year over year. The downside was caused by fall in event-related revenues at the company's venues. The winding down of Obscura Digital's third-party business and the expiration of the booking agreement with the Wang Theatre, impacted the segment's revenues. However, the declines were partially offset by higher event-related revenues from other events — Tao Group Hospitality and the Christmas Spectacular Starring the Radio City Rockettes production.

The segment's adjusted operating income amounted to \$103.6 million compared with operating income of \$101 million in the prior-year quarter. The metric improved primarily owing to decline in direct operating as well as selling, general and administrative expenses. The decline in operating expenses were due to lower concert-related expenses and lower Obscura Digital costs, partially offset by higher event-related expenses from other live events along with increased employee compensation and related benefits.

Revenues in the **Sports** segment inched up 0.2% year over year to \$316.5 million, courtesy of growth in revenues from league distributions and local media rights fees from MSG Networks Inc. However, the gain was partially overshadowed by a decrease in sponsorship and signage revenue.

The segment's adjusted operating income amounted to \$55.3 million compared with operating income of \$48.6 million in the prior-year quarter. The upside can be primarily attributed to decline in direct operating expenses, owing to fall in net provisions for certain team personnel transactions. This was partially offset by higher team compensation, revenue sharing and luxury tax expenses as well as other team operating expenses.

Corporate and Other

For second-quarter fiscal 2020, adjusted operating loss for Corporate and Other's was reported at \$31.9 million compared with \$19.2 million reported in the year-ago quarter. The loss was primarily caused by higher expenses related to the MSG Sphere initiative, which includes — personnel, content development and technology costs as well as expenses related to the proposed spin-off the Company's Entertainment business. This was partially offset by a fall in employee compensation and related benefits in Corporate.

Operating Income

In the quarter under review, Madison Square Garden reported adjusted operating income of \$126.9 million compared with operating income of \$130.4 million in the year-ago quarter.

Balance Sheet

Cash and cash equivalents totaled \$1,000.1 million as of Dec 31, 2019 compared with \$1,086.4 million as of Jun 30, 2019. The company ended the fiscal second quarter with long-term debt of nearly \$31.2 million compared with \$48.6 million at the end of Jun 30, 2019.

Other Development

The company has made significant progress on its state-of-the-art entertainment venue — MSG Sphere at The Venetian. Relative to the company's current cost estimate, actual construction costs for MSG Sphere at The Venetian incurred through December 31, 2019 were approximately \$248 million. The company expects to open MSG Sphere at The Venetian by 2021.

Quarter Ending **12/2019**

Report Date	Feb 07, 2020
Sales Surprise	-1.67%
EPS Surprise	63.07%
Quarterly EPS	3.93
Annual EPS (TTM)	-1.03

Valuation

Madison Square Garden's shares are up 3.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry have lost 7.9% but sector has gained 13.8%.

The S&P 500 index is up 21.2% in the past year.

The stock is currently trading at 4.11x forward 12-month Price to Sales, which compares to 1.44x for the Zacks sub-industry, 2.3x for the Zacks sector and 3.55x for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.99x and as low as 2.95x, with a 5-year median of 3.55x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$317 price target reflects 4.32x forward 12-month Price to Sales value.

The table below shows summary valuation data for MSG.

Valuation Multiples - MSG					
		Stock	Sub-Industry	Sector	S&P 500
P/S F 12M	Current	4.11	1.44	2.3	3.55
	5-Year High	4.99	2.18	3.19	3.55
	5-Year Low	2.95	1.33	1.81	2.54
	5-Year Median	3.55	1.68	2.54	3
P/CF	Current	42.11	7.34	14.04	26.65
	5-Year High	50.83	10.88	16.42	26.65
	5-Year Low	20.22	6.65	9.75	11.78
	5-Year Median	33.65	8.43	13.56	16.27
P/B TTM	Current	2.82	1.24	3.52	4.32
	5-Year High	3.03	1.71	5.04	4.42
	5-Year Low	1.26	0.97	3.13	2.85
	5-Year Median	2.1	1.38	4.26	3.62

As of 02/10/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (209 out of 255)



Top Peers

Bluegreen Vacations Corporation (BXG)	Neutral
Cedar Fair, L.P. (FUN)	Neutral
Hudson Ltd. (HUD)	Neutral
Live Nation Entertainment, Inc. (LYV)	Neutral
Manchester United Ltd. (MANU)	Neutral
Vail Resorts, Inc. (MTN)	Neutral
SeaWorld Entertainment, Inc. (SEAS)	Neutral
Six Flags Entertainment Corporation New (SIX)	Underperform

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	MSG Neutral	X Industry	S&P 500	FUN Neutral	SEAS Neutral	SIX Underperform
VGM Score	F	-	-	A	A	C
Market Cap	7.16 B	1.03 B	24.17 B	3.09 B	2.80 B	3.31 B
# of Analysts	5	4	13	6	8	6
Dividend Yield	0.00%	0.00%	1.77%	6.86%	0.00%	8.49%
Value Score	F	-	-	B	B	C
Cash/Price	0.16	0.10	0.04	0.08	0.02	0.07
EV/EBITDA	45.86	9.26	13.89	12.39	14.12	8.67
PEG Ratio	NA	1.44	2.05	2.23	2.75	2.50
Price/Book (P/B)	2.81	1.62	3.27	72.23	12.10	NA
Price/Cash Flow (P/CF)	54.84	8.17	13.60	9.41	12.36	8.34
P/E (F1)	NA	18.39	19.00	15.64	19.23	16.49
Price/Sales (P/S)	4.41	1.27	2.66	2.11	2.03	2.21
Earnings Yield	-0.66%	5.19%	5.26%	6.38%	5.19%	6.06%
Debt/Equity	0.10	0.77	0.71	50.48	6.95	-3.86
Cash Flow (\$/share)	5.50	1.90	6.89	5.79	2.88	4.69
Growth Score	D	-	-	B	A	C
Hist. EPS Growth (3-5 yrs)	NA%	15.63%	10.85%	6.22%	13.10%	37.57%
Proj. EPS Growth (F1/F0)	-516.67%	10.86%	7.22%	10.99%	27.76%	-0.54%
Curr. Cash Flow Growth	-50.54%	10.60%	8.88%	-14.81%	-44.47%	29.92%
Hist. Cash Flow Growth (3-5 yrs)	48.32%	10.36%	8.36%	2.08%	-1.90%	0.87%
Current Ratio	1.55	0.93	1.22	1.17	0.44	1.24
Debt/Capital	10.97%	56.37%	42.90%	98.06%	87.43%	NA
Net Margin	-1.47%	5.93%	11.81%	10.02%	7.43%	18.02%
Return on Equity	-0.90%	7.18%	16.98%	-528.93%	52.78%	-38.61%
Sales/Assets	0.42	0.53	0.54	0.63	0.61	0.53
Proj. Sales Growth (F1/F0)	2.70%	4.37%	4.06%	4.37%	3.31%	0.35%
Momentum Score	F	-	-	C	C	D
Daily Price Chg	2.78%	0.00%	0.45%	0.15%	1.77%	2.54%
1 Week Price Chg	-0.96%	0.00%	2.47%	0.55%	1.57%	0.03%
4 Week Price Chg	0.85%	-1.61%	0.95%	1.34%	2.15%	9.98%
12 Week Price Chg	9.27%	-1.39%	5.05%	-2.70%	19.21%	-15.07%
52 Week Price Chg	4.55%	-13.24%	16.18%	3.28%	35.49%	-38.17%
20 Day Average Volume	144,625	108,566	1,999,386	222,273	616,677	1,383,978
(F1) EPS Est 1 week change	-12.23%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-90.48%	-0.31%	0.00%	0.00%	0.00%	-5.32%
(F1) EPS Est 12 week change	-136.22%	-0.56%	-0.18%	-0.14%	0.00%	-14.94%
(Q1) EPS Est Mthly Chg	1.00%	0.00%	0.00%	0.00%	0.00%	-3.07%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	D
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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