

## Vail Resorts, Inc. (MTN)

**\$145.24** (As of 03/12/20)

Price Target (6-12 Months): **\$123.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 03/11/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

## Summary

Vail Resorts reported lower-than-expected second-quarter fiscal 2020 results, wherein earnings and revenues missed the Zacks Consensus Estimate by 0.4% and 0.3%, respectively. Nonetheless, the metrics grew 1% and 8.8% on a year-over-year basis, respectively. Strong season pass program, increased focus on acquisitions and mergers, along with efficient marketing initiatives have been benefiting Vail Resorts. The company is witnessing higher season pass sales lately owing to increased demand for skiing. In addition to the United States, it operates in North America, Japan and Europe. However, rising expenses related to operations, acquisitions and pertinent weather-related woes continue to hurt profitability. Intense competition in ski resort and lodging industries is an added concern.

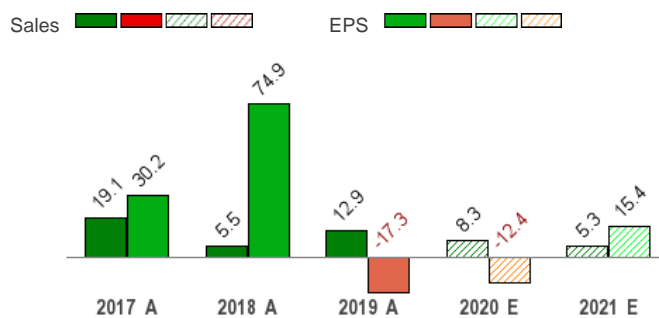
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$255.37 - \$125.00
20 Day Average Volume (sh)	675,824
Market Cap	\$5.8 B
YTD Price Change	-39.4%
Beta	0.79
Dividend / Div Yld	\$7.04 / 4.8%
Industry	<a href="#">Leisure and Recreation Services</a>
Zacks Industry Rank	Top 42% (107 out of 253)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.8%
Last Sales Surprise	-3.0%
EPS F1 Est- 4 week change	-16.8%
Expected Report Date	06/04/2020
Earnings ESP	0.0%
P/E TTM	18.8
P/E F1	22.0
PEG F1	1.5
P/S TTM	2.4

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	278 E	966 E	1,079 E	267 E	2,592 E
2020	268 A	925 A	1,004 E	261 E	2,461 E
2019	220 A	850 A	958 A	244 A	2,272 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$3.06 E	\$5.61 E	\$7.99 E	-\$2.84 E	\$7.63 E
2020	-\$2.23 A	\$5.07 A	\$6.84 E	-\$2.80 E	\$6.61 E
2019	-\$2.43 A	\$5.02 A	\$7.12 A	-\$2.22 A	\$7.55 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 03/12/2020. The reports text is as of 03/13/2020.

## Overview

Vail Resorts, Inc. is a Delaware-based holding company founded in 1997. Its operations are carried out by several subsidiaries and are clustered into two segments namely Mountain and Lodging.

The **Mountain** segment (86% of net revenues for fiscal 2019) operates mountain resort properties and urban ski areas as well as ancillary services like ski school, dining and retail/rental operations.

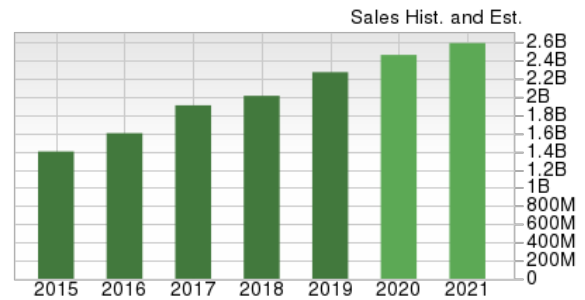
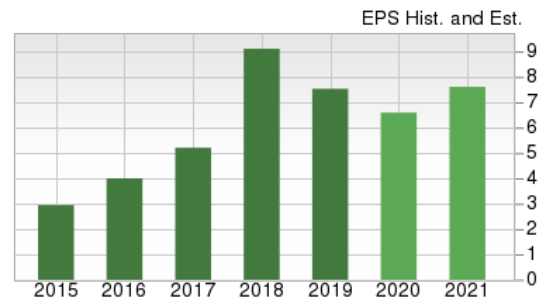
The **Lodging** segment (14%) owns and manages luxury hotels under the RockResorts brand and condominiums around mountain resorts. The segment also operates concessionaire properties like the Grand Teton Lodge Company and mountain resort golf courses.

The **Real Estate** segment (0.07%) owns, develops, and sells real estate in and around the company's resort communities.

Vail Resorts generates revenues from two segments — Resort (accounting for 99.9% of net revenues in second-quarter fiscal 2020) and Real Estate (0.1%). Under the Resort segment, the company has Mountain and Lodging services, and other (constituting 81.5% of net revenues in the fiscal second quarter), and Mountain and Lodging retail and dining (18.5%).

As of Jan 31, 2020, the company's Mountain segment operated 37 world-class mountain resort properties and five urban ski areas.

The company has a notable presence in Park City in Utah. It also operates resorts in the Heavenly, Northstar and Kirkwood in the Lake Tahoe area of California and Nevada.



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## Reasons To Sell:

- ▼ **Guidance Pulled in Response to Coronavirus Uncertainty:** As a result of coronavirus' uncertain impact on the broader U.S. travel market, particularly on Vail Resorts' operations, management withdrew its previous guidance issued on Jan 17, 2020.

Based on results through Mar 1, 2020 and indicators for the remainder of the year, excluding any direct impact from coronavirus, management indicated that fiscal 2020 Resort EBITDA would be \$20 million below the midpoint of the guidance issued on Jan 17, 2020.

Coronavirus woes, high costs of operations, risks from mergers, competition and weather-related woes continue to hurt Vail Resorts.

- ▼ **High Costs of Operations:** Vail Resorts' operational efficiencies also come at the cost of increased expenses. During the first half of fiscal 2020, total segmental operating expenses increased 13.6% year over year to \$894.6 million. Resort operating expenses totaled \$887.8 million, up 13.1% year over year.
  - ▼ **Challenges in Acquisition Strategies:** While Vail Resorts' relentless acquisition and merger are likely to prove beneficial over the long term, there are certain short-term risks associated. Vail Resorts reported EBITDA loss of \$76.7 million in the first quarter of fiscal 2020 compared with a negative \$72.5 million a year ago. The company is somewhat struggling with added expenses, stemming from acquisitions. In the fiscal first and second quarters of 2020, resort EBITDA included acquisition and integration-related expenses worth \$9 million and \$1.9 million, respectively.
  - ▼ **Competition Ails:** The ski resort and lodging industries are highly competitive. There are roughly 470 ski areas in the United States that serve local, and destination guests. Resultantly, Vail Resorts face intense competition from other ski providers. Coming to the lodging industry, it is already known how an oversupply of hotels in the United States has given rise to a stiff competitive environment. Subsequently, the company faces heightened competition in its lodging business segment.
  - ▼ **Overvalued Compared With Peers:** Since the leisure service providers are debt-laden, it makes sense to value them based on the EV/EBITDA (Enterprise Value/ Earnings before Interest Tax Depreciation and Amortization) ratio. This is because the valuation metric takes into account not just its equity but also the level of debt on a company's balance sheet. For capital-intensive companies, the EV/EBITDA is a better valuation metric because it is unaffected by the changing capital structures and ignores effects of non-cash expenses on a company's value. The trailing 12-month EV/EBITDA ratio of Vail Resorts is 11.2, which is overvalued compared with the industry's 6.8 and the S&P 500's 10.2.
  - ▼ **Weather-Related Woes:** Vail Resorts' business is highly dependent on weather conditions. Particularly, the ski business directly depends on the amount and timing of snowfall. Unfavorable weather conditions can adversely affect skiers' visits and in turn hurt the company's revenues and profits. Unseasonably warm weather may also result in inadequate natural snowfall and reduce skiable terrain, which increases costs of snowmaking.
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## Risks

- **Impressive Top Line:** Shares of Vail Resorts have outperformed the industry in the past year. The appreciation in share price can be attributed to the company's better-than-expected sales in four out of the trailing five quarters. The metric not only surpassed analysts' expectations but also grew on a year-over-year basis. The company's first-half fiscal 2020 revenues came in at \$1.19 billion, reflecting an increase of 11.5% on a year-over-year basis. Total revenues were driven by growth across its business segments.
- **Robust Season Pass Program:** Vail Resorts has a season pass program under which the company offers a variety of season pass products for all the mountain resorts and urban ski areas in both domestic, and international markets. Increased demand for skiing has led the company to witness higher season pass sales lately. Notably, pass revenues increased 17.2% in second-quarter fiscal 2020, mainly attributable to increased pass product sales for the 2019/2020 North American ski season. It introduced Epic Day Pass (EDP) in 2019, which exceeded management's expectations, with the vast majority of sales coming from new pass holders and in destination markets. Vail Resorts also witnessed season pass sales increase across all products and geographies, including destination markets. The company has initiated 2020/2021 North American ski season, for which pass holders will receive 20% off on food and beverage, lodging, group ski and ride school lessons, equipment rentals and more, in turn creating incremental savings of potentially hundreds of dollars per day for a family of four.
- **Marketing Efforts Drive Guest Loyalty:** Robust growth in the season pass sales reflects Vail Resorts' efficient guest focused marketing efforts. The company orients its strategy with data analytics to drive targeted and personalized marketing toward guests. Guest data is captured through season pass programs; e-commerce platforms, including mobile lift ticket sales; the EpicMix application and operational processes at the lift ticket windows. Additionally, Vail Resorts involves in digital marketing, and media advertising to drive traffic and sales. The company's recently introduced EDP also expanded its guest traffic.

Meanwhile, the company has spent more than \$1.2 billion over the last decade to drive guest loyalty. The company has also made significant investments in Colorado for its snowmaking systems at Vail, Beaver Creek and Keystone. Additionally, Vail Resorts has completed its full renovation of the Beaver Creek Children's Ski School facilities and the Peak eight base area at Breckenridge, with new ski school and childcare facilities. It has also completed one of its final stage of modernization project and has invested in technology to program its data-driven marketing efforts.

- **Geographic Diversification to Counter Weather-Related Woes:** Vail Resorts have widespread geographical boundaries. Apart from operations in the United States, the company has expanse in North America, Japan and Europe. By widely diversifying its geographical locations, Vail Resorts aims to cushion the business from weather inconsistencies. The company has also announced that it will expand 250-acre lift-served terrain in the signature McCoy Park area of Beaver Creek. It also intends to increase the seating capacity at the Rendezvous Lodge restaurant on Blackcomb Mountain, which will add 250 seats further enhancing the experience at North America's largest resort.
- **Focus on Acquisitions:** Vail Resorts extensively focuses on acquisitions and mergers to build a stronger portfolio of differentiated, and varied services. The company acquired a few mountain resorts, hotel properties and other businesses complementary to its own as well as developable land in proximity to its resorts. Vail Resorts had completed the acquisition of Peak Resorts for \$11 per share on Sep 24, 2019. With the completion of this buyout, the company added 17 U.S. ski areas to its portfolio. The newly acquired resorts are located in the Northeast, Mid-Atlantic and the Midwest. Currently, the company has 37 owned and operated resorts worldwide.

Moreover, On Aug 15, 2018, the company acquired Stevens Pass Resort in Washington from Ski Resort Holdings, LLC, for \$64 million. Additionally, on Sep 27, 2018, management acquired Triple Peaks, LLC, the parent company of Okemo Mountain Resort in Vermont; Crested Butte Mountain Resort in Colorado and Mount Sunapee Resort in New Hampshire for a cash price of roughly \$74 million. Vail Resorts expects these acquisitions to positively contribute to the company's operating results going ahead.

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## Last Earnings Report

### Vail Resorts (MTN) Q2 Earnings & Revenues Miss Estimates

Vail Resorts, Inc. reported second-quarter fiscal 2020 results, with earnings and revenues missing the Zacks Consensus Estimate.

In the quarter under review, the company reported earnings of \$5.07 per share that missed the Zacks Consensus Estimate of \$5.44. In the year-ago quarter, Vail Resorts had reported adjusted earnings of \$5.02 per share.

Quarterly revenues came in at \$924.6 million, which missed the consensus mark of \$954.1 million. However, the metric increased 8.8% on a year-over-year basis. This upside can be attributed to solid performance of the Mountain and Lodging segments.

#### Segment Results

Vail Resorts generates revenues from two segments — Resort (contributing 99.9% to net revenues in second-quarter fiscal 2020) and Real Estate (0.1%). Under the Resort segment, the company has Mountain and Lodging services, and other (contributing 81.5% to net revenues in fiscal second quarter), as well as Mountain and Lodging retail and dining (18.5%).

Meanwhile, Vail Resorts has two reporting segments — Mountain and Lodging.

The Mountain segment reported revenues of \$845.6 million in the quarter under review, up 9% year over year. The metric was mainly driven by increase in pass product revenues and incremental revenues from Peak Resorts.

The segment's EBITDA amounted to \$373 million compared with \$352 million in the prior-year quarter. Operating expenses in the Mountain segment totaled \$472.7 million, up 11.5% year over year.

Lodging net revenues in the reported quarter were \$78.9 million, up 7.7% year over year on rise in sales from Peak Resort.

Under the segment, EBITDA declined 8% from the prior-year figure to \$5.3 million. Operating expenses in the Lodging segment rose 9% year over year to \$73.6 million.

#### Operating Results

Vail Resorts reported EBITDA of \$377 million in the quarter under review compared with \$356.9 million in the prior-year period.

Resort operating expenses totaled \$546.3 million, up 11.1% year over year. Total segmental operating expenses increased 11.1% year over year to \$547.8 million.

#### Balance Sheet

Cash and cash equivalents as of Jan 31, 2020 totaled \$126.8 million. Net long-term debt as of Jan 31, 2020 was \$1,817.1 million.

Vail Resorts approved a quarterly cash dividend of \$1.76 per share of common stock, which is payable on Apr 9, 2020, to its shareholders of record as of Mar 26, 2020.

#### 2020 Outlook

Given uncertainty surrounding the impact of coronavirus on the broader U.S. travel market, the company has withdrawn its previous guidance issued on Jan 17, 2020. In the week ended Mar 8, 2020, the company saw a negative performance compared with the previous week owing to lower destination skier visits. It expects this trend to continue and potentially worsen in the upcoming weeks. For 2020, the company expects adjusted EBITDA to be \$20 million, below the midpoint of \$778-\$818 million.

Quarter Ending 01/2020

Report Date	Mar 09, 2020
Sales Surprise	-3.04%
EPS Surprise	-6.80%
Quarterly EPS	5.07
Annual EPS (TTM)	7.74

## Valuation

Vail Resorts shares are down 39.4% in the year-to-date period and 32.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 57.9% and 30.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 59.9% and 22.2%, respectively.

The S&P 500 index is down 22.9% in the year-to-date period and 12.6% in the past year.

The stock is currently trading at 17.4X forward 12-month earnings, which compares to 8.8X for the Zacks sub-industry, 14.4X for the Zacks sector and 15.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 41.75X and as low as 17.36X, with a 5-year median of 30.46X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$123 price target reflects 14.69X forward 12-month earnings.

The table below shows summary valuation data for MTN.

Valuation Multiples - MTN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.36	8.82	14.44	15.84
	5-Year High	41.75	22.68	23.23	19.34
	5-Year Low	17.36	8.82	14.44	15.18
	5-Year Median	30.46	18.79	19.88	17.42
EV/EBITDA TTM	Current	11.2	6.17	8.83	9.17
	5-Year High	29.76	11.38	17.58	12.87
	5-Year Low	11.2	6.17	8.83	8.31
	5-Year Median	16.33	8.93	12.28	10.78
P/B TTM	Current	3.84	0.52	2.26	3.69
	5-Year High	7.34	1.71	5.04	4.56
	5-Year Low	3.68	0.52	2.26	2.85
	5-Year Median	5.12	1.38	4.25	3.63

As of 03/12/2020

## Industry Analysis Zacks Industry Rank: Top 42% (107 out of 253)



## Top Peers

Choice Hotels International, Inc. (CHH)	Neutral
Cedar Fair, L.P. (FUN)	Neutral
Las Vegas Sands Corp. (LVS)	Neutral
MGM Resorts International (MGM)	Neutral
The Madison Square Garden Company (MSG)	Neutral
Six Flags Entertainment Corporation New (SIX)	Underperform
Extended Stay America, Inc. (STAY)	Underperform
Wynn Resorts, Limited (WYNN)	Underperform

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	MTN Underperform	X Industry	S&P 500	LVS Neutral	MGM Neutral	WYNN Underperform
<b>VGM Score</b>	<b>D</b>	-	-	<b>D</b>	<b>D</b>	<b>F</b>
Market Cap	5.85 B	539.17 M	17.38 B	33.72 B	7.51 B	7.31 B
# of Analysts	6	4	13	7	7	7
Dividend Yield	4.85%	0.00%	2.51%	6.98%	3.93%	5.88%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>B</b>	<b>F</b>
Cash/Price	0.02	0.13	0.05	0.10	0.23	0.23
EV/EBITDA	11.11	6.66	10.90	7.52	4.10	9.77
PEG Ratio	1.59	0.79	1.54	5.75	4.84	NA
Price/Book (P/B)	3.54	0.87	2.35	5.21	0.63	4.74
Price/Cash Flow (P/CF)	11.08	3.73	9.60	9.02	4.54	7.82
P/E (F1)	23.84	7.91	13.98	17.20	19.35	39.35
Price/Sales (P/S)	2.44	0.57	1.89	2.45	0.58	1.11
Earnings Yield	4.55%	11.29%	7.07%	5.82%	5.18%	2.54%
Debt/Equity	1.24	0.74	0.70	1.91	1.22	6.64
Cash Flow (\$/share)	13.11	2.40	7.01	4.89	3.36	8.69
<b>Growth Score</b>	<b>C</b>	-	-	<b>C</b>	<b>F</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	26.75%	17.66%	10.85%	5.65%	11.64%	5.42%
Proj. EPS Growth (F1/F0)	-12.47%	3.10%	5.99%	-21.25%	-79.68%	-33.77%
Curr. Cash Flow Growth	13.43%	3.07%	6.15%	-0.77%	-1.74%	-27.48%
Hist. Cash Flow Growth (3-5 yrs)	25.66%	8.97%	8.52%	-1.30%	9.93%	-3.64%
Current Ratio	0.45	0.91	1.24	1.65	1.26	1.44
Debt/Capital	55.35%	55.33%	42.57%	65.62%	55.12%	86.92%
Net Margin	12.63%	5.14%	11.64%	19.64%	15.89%	1.86%
Return on Equity	18.87%	5.11%	16.74%	38.61%	3.50%	16.03%
Sales/Assets	0.50	0.53	0.54	0.61	0.41	0.49
Proj. Sales Growth (F1/F0)	8.35%	2.01%	3.54%	-7.55%	-3.17%	-5.04%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>F</b>	<b>F</b>	<b>D</b>
Daily Price Chg	-6.67%	-13.83%	-10.03%	-9.21%	-15.60%	-15.89%
1 Week Price Chg	-7.54%	-9.45%	-0.67%	-5.92%	-16.98%	-12.92%
4 Week Price Chg	-41.45%	-46.20%	-28.22%	-36.30%	-52.01%	-49.09%
12 Week Price Chg	-40.73%	-48.16%	-25.63%	-36.18%	-54.12%	-51.36%
52 Week Price Chg	-32.25%	-57.93%	-16.72%	-25.70%	-42.31%	-41.18%
20 Day Average Volume	675,824	227,135	3,061,271	6,488,138	17,837,906	4,145,890
(F1) EPS Est 1 week change	-17.57%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-16.78%	-7.17%	-0.32%	-14.59%	-47.12%	-36.52%
(F1) EPS Est 12 week change	-17.25%	-16.06%	-0.65%	-23.07%	-45.57%	-67.74%
(Q1) EPS Est Mthly Chg	-13.61%	-13.61%	-0.62%	-33.84%	-77.14%	-284.44%

## 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	<b>D</b>
Growth Score	<b>C</b>
Momentum Score	<b>F</b>
VGM Score	<b>D</b>

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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